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Suncorp warns insurance mutual is against best evidence

Leading insurer Suncorp says an insurance mutual in north Queensland is unfair to Australian taxpayers and will not protect communities living in the cyclone-prone region.

Suncorp Insurance CEO Anthony Day said for north Queensland communities to remain vibrant and viable, they must be protected. The only way to achieve this is by investing in mitigation, building stronger homes and properties, and improving building codes in cyclone areas.

Mr Day's comments followed today's report in *The Australian Financial Review* that Leichhardt MP Warren Entsch had enlisted the support of Prime Minister Malcolm Turnbull to underwrite a cyclone insurance mutual for the area.

On the same day, Federal Liberal Senator Dean Smith wrote an opinion piece in the paper backing the industry's view which calls for increased funding in mitigation to help improve insurance affordability and protect vulnerable communities.

"Reducing the risk leads to increased competition and significant price reductions in premiums," Mr Day said.

"A government mutual would merely paper over the cracks and not address the heart of the problem in the north – the high risk of cyclones devastating whole communities, flattening homes and neighbourhoods.

"Mr Entsch's proposal for a mutual scheme, propped up by all taxpayers, is not in the national interest and will not serve people living in northern Australia in the long term."

Suncorp knows all too well the devastating impact of cyclones. The company has already paid more than a billion dollars to policyholders in north Queensland to help rebuild their lives after cyclones Larry, Yasi, Oswald, Marcia and now Debbie.

"The Government should be willing to listen and act on the strong advice of its own inquiries," Mr Day said.

The Northern Australia Insurance Premiums Taskforce said this about government market intervention:

"The mutual and reinsurance pool options generate a similar premium reduction and similar potential cost to Government over 10 years. If either option were to run along commercial lines, there would be no reduction in premiums." [Executive Summary]

"The larger the reductions to consumer cyclone premiums, the larger the likely cost to Government from taking on increased risk from cyclone damage." [Executive Summary]

"The premium reduction would come at a significant cost to the Government, although the cost of options to achieve a larger reduction in premiums would be even higher." [Executive Summary]

"The mutual could result in a complex claims experience." p38

"Creating a compulsory mutual cyclone insurance scheme would likely have a major impact of the insurance market in northern Australia." p38

"A mutual without Government support could not offer premiums below current levels. Premiums may actually be higher." p42

The Productivity Commission said this about government market intervention (Natural Disaster Funding Arrangements – 2014):

"International experience has shown that government intervention in property insurance markets through subsidies is overwhelmingly ineffective. It creates moral hazard as well as fiscal risks. Some foreign governments have had to bear significant costs following large natural disasters because their insurance schemes failed to accumulate adequate reserves." p32.

“Governments should not address affordability concerns by providing subsidies to high-risk households. Subsidies reduce the effectiveness of insurance in communicating and managing risk. (p366)

The Financial System Inquiry said this about government market intervention (2014):

“The Inquiry believes this issue should be primarily handled by risk mitigation efforts rather than direct government intervention, which risks distorting price signals.” (p227)

“. . . the Inquiry considers the main role of government is to support the market in working as effectively as possible rather than subsidising prices.” (p231)

Mr Day said the evidence showed preventing natural disasters through mitigation lowers the cost of insurance, protects communities and builds stronger economies.

“Suncorp is committed to supporting mitigation through risk-based pricing and by providing a market signal that rewards mitigation activity,” Mr Day said.

“Our *Protecting the North* initiative has reduced the premiums of more than 31,000 customers who have reported roof upgrades, covered windows, stronger doors and property maintenance since we launched the Cyclone Resilience Benefit last year.

“The role of any government is not to intervene in functioning competitive markets, but to help protect its citizens and support conditions that spur the economy.

“We welcome government action but it needs to be directed at investing in mitigation which is in this region’s best interests.”

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