

QUEENSLAND BUSINESS INSURANCE REPORT

▼ JULY 2014



1.0 INTRODUCTION AND OVERVIEW

- The cost of rising insurance premiums has emerged as a major constraint on businesses in Queensland. Escalating insurance costs are leading to concerns that some businesses may now be inadequately protecting their assets by under-insuring or foregoing insurance altogether. CCIQ has been alerted to growing concerns regarding soaring costs of insurance premiums, particularly in North Queensland, Far North Queensland and South West Queensland following natural disaster events.
- On this basis CCIQ conducted a hot topic question of business insurance premiums as part of the CCIQ Westpac Group Pulse Survey to obtain a greater understanding of the insurance challenges facing Queensland businesses. The majority of business respondents (95.2 per cent) had some form of business insurance, with the most common products including public and products liability, workers compensation, general property, plant and equipment (including machinery and non-passenger motor vehicles), and professional indemnity.
- Queensland businesses attributed rising insurance premiums mainly to external factors including insurance companies operating costs and profit margins (62.6 per cent), the direct result of natural disasters (51.3 per cent) and the indirect result of natural disasters through cross subsidisation (44.3 per cent).
- Most businesses reported that minimal internal factors had led to an increase in premiums, however some identified changing workforce sizes, increases or improvements in plant and equipment investment, numbers of vehicles and claims history as having an impact on their premiums.
- Queensland business reported an average premium increase of 58.2% as part of their latest insurance renewal.
- On average 5.74 per cent of overall business costs are comprised of insurance premiums.
- Rising premiums have led to decreased profitability for more than half of Queensland's businesses (51.3 per cent) and decreased investment for 26.1 per cent. Two in five businesses have changed insurance companies as a result of rising prices. Of concern, 12.3 per cent of businesses reported that they are underinsured and 4 per cent have discontinued their insurance cover.
- Queensland businesses are supportive of further actions being taken to reduce the impact of rising insurance premiums. Strong support is provided by businesses for standard definitions for all types of coverage and insurance terms, increasing competition (particularly in regional areas), better regulation of the insurance industry and the State Government building better flood and cyclone mitigating infrastructure.

"We have no cover for sheds or accommodation and consequently carry far greater risks. Only Wesfarmers Insurance will insure our business" - Survey Respondent, Far North Queensland

Insurance companies need to assess risk based on actual property risk as opposed to postcode. Our building insurance policy quotes from a broker have increased from approximately \$800 pa to up to \$8,000 over a period of five years!" - Survey Respondent, North Queensland

2.0 SCOPE OF THE ISSUE

2.1 PREMIUM INCREASES

Insurance premiums have skyrocketed on the back of consecutive natural disaster events in Queensland over the past 4 years. Businesses struggling to cope with cost of living pressures are inevitably feeling increasingly crippled by the added expense.

On average businesses have reported that insurance costs make up 5.74 per cent of their overall operating costs. CCIQ's Pulse survey has identified insurance premiums as the third biggest constraint on Queensland businesses.

Respondents provided their insurance premiums dating back three years to ascertain ongoing price increases following natural disaster events in Queensland. The results highlight that excessive rises in the past three years have occurred particularly in regions such as North Queensland, Far North Queensland and South West Queensland. This is consistent with the areas most affected by the natural disaster events that have occurred over the past 4 years. On average, respondents have experienced increases of 58.2 per cent in their insurance premiums over their latest insurance renewals. Some have reported increases of up to 2544.6 per cent.

State Wide Increases

	QUEENSLAND			
	LOWEST	HIGHEST	MEDIAN	AVERAGE
Latest	-76.4%	2544.6%	12.1%	58.2%
2nd Latest	-93.6%	1400.0%	10.0%	44.7%

Several consequences arise following periods of voluminous insurance claims being made. These include:

- Insurance companies reinsurance prices escalate to cover the costs of their risk;
- Insurance companies spreading the cost of paying out claims across their customer base.

These factors jeopardise high risk insurance customers as low risk insurance customers seek to cancel insurance coverage altogether, reducing the overall customer base. These outcomes are clearly evident in Queensland at present.

2.2 IMPACT ON BUSINESS

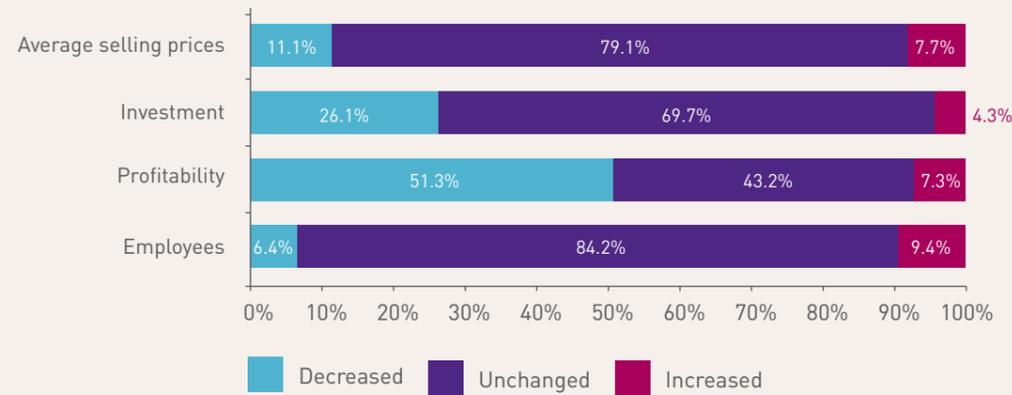
Businesses have experienced detrimental impacts in a number of areas as a direct result of rising insurance premiums. Many businesses have noted their inability to pass these costs on to the consumer, particularly those engaged in competitive markets. Accordingly many businesses have had to absorb the increases themselves.

CCIQ's insurance survey revealed that 51.3 per cent of businesses reported decreased profitability in their everyday operations as a result of rising premiums. Another 26.1 per cent reported decreased investment as a result of higher insurance costs. Decreased profitability and investment directly impact on a businesses' ability to remain competitive and viable.

CCIQ wishes to thank AustCover for their technical assistance in the preparation of this report

AUSTCOVER
ADVISE ASSIST ASSURE

What impact has rising insurance premiums had on your business in the following areas?



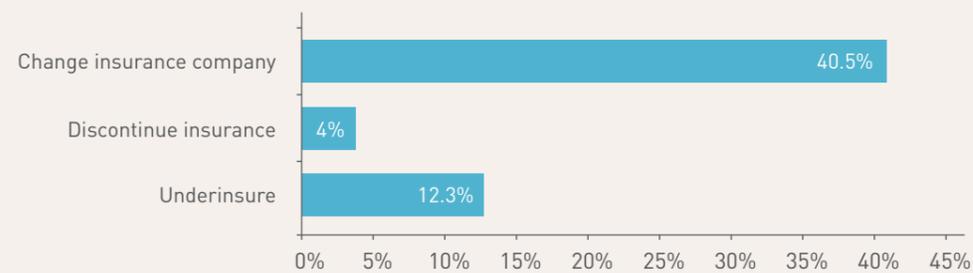
2.3 UNDERINSURANCE

Rising insurance premiums have also led businesses to underinsure or forego insurance altogether. Underinsurance and no insurance can lead to businesses eventually closing their doors.

Underinsurance has been identified as an issue that is of increasing concern to many in the insurance industry. Of the respondents surveyed by CCIQ, 12.3 per cent of businesses reported that they are underinsured and 4.8% have no insurance. Underinsurance is occurring predominantly as a means of decreasing the overall cost of insurance premiums.

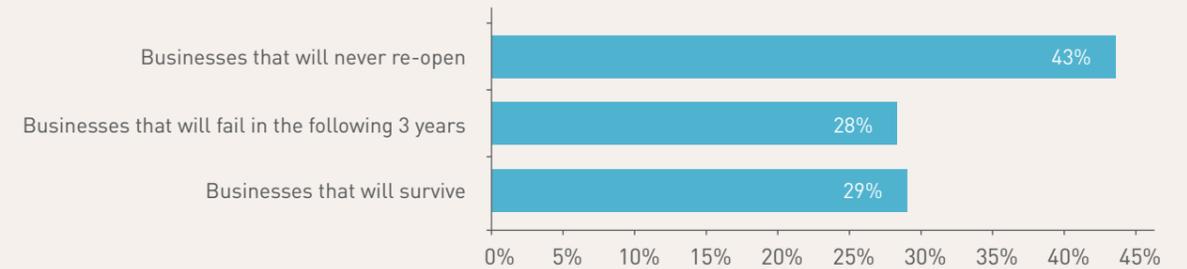
CCIQ notes that insurance companies also penalise policy holders for under insurance. This is worked out using the following formulae: (sum insured/80% insured value) x loss.

Has rising insurance costs led your business to:



To manage costs, many businesses look to reduce options under their contracts. A popular alternative is to eliminate business interruption cover and retain only public liability risk (as required by many landlords). The ICA have reported that only 40 per cent of Commercial Insurance customers have Business Interruption cover. Business Interruption covers the loss of future business income, in the event of loss or damage to business property. A reduction in business cash-flow can have huge effects particularly on small businesses who cannot continue to maintain expenses such as rent and staff. The following graph depicts ICA reports of the impacts affecting businesses after experiencing a major material loss to property.

Results of major material loss to business property



Source: Insurance Council of Australia

Underinsurance can therefore have grave consequences on small businesses in the event of unpredictable incidents.

3.0 CAUSES OF INCREASING PREMIUMS

A number of issues have impacted the Australian insurance industry, including:

- Insurance companies operating costs and profit margins
- The overall cost to an insurance organisation of paying out claims to its customers including impact of recent natural disasters
- The cost of re-insurance
- Market failure through lack of competition
- State Government stamp duties on insurance
- Companies looking to exit the market
- Low population densities
- Price gouging
- Lower yields on equities and bonds

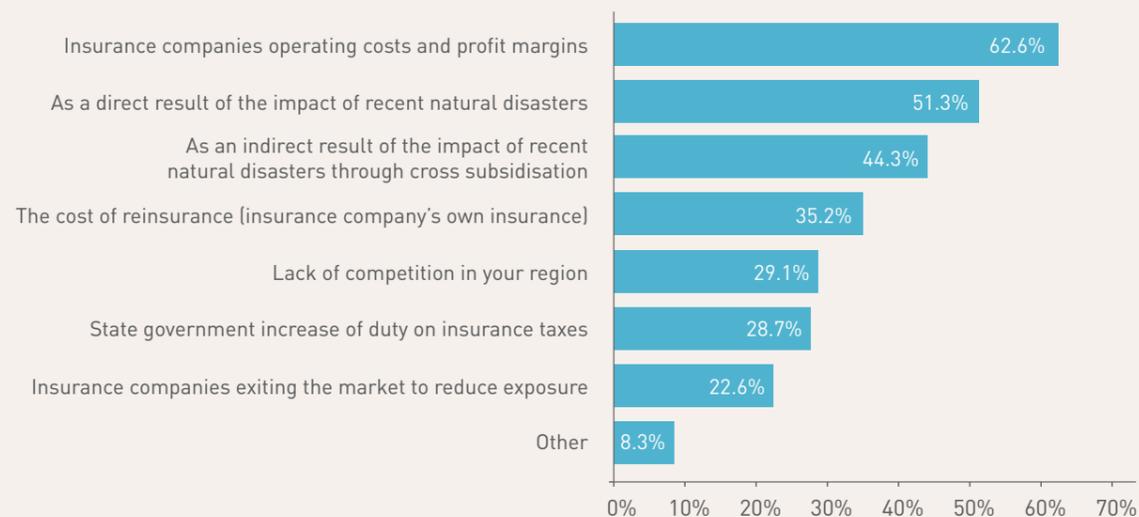
Traditionally insurance pricing has been based on geographical areas or particular classes of business. However, more common practices are seeing premiums estimated through the inaccurate assessment of risk and failure to consider implemented mitigation measures, with the aim of making individual policies profitable to the insurer.

3.1 FACTORS IMPACTING THE COST OF BUSINESS INSURANCE PREMIUMS

3.1.1 External factors:

The majority of businesses (62.6 per cent) believe that insurance companies' operating costs and profit margins are the primary cause impacting the cost of insurance premiums. The second biggest factor was put down to the impact of recent natural disaster events, with 51.3 per cent of respondents highlighting this causing rises in their premiums.

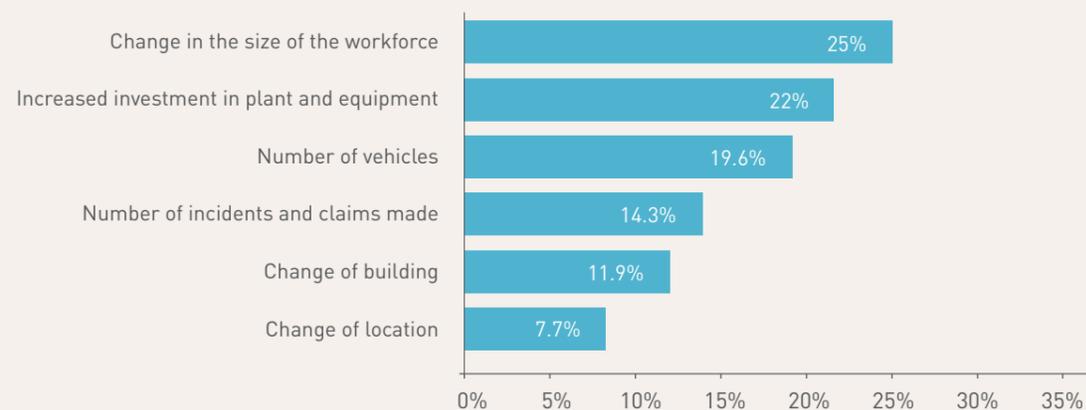
External factors impacting the cost of business insurance premiums



3.1.2 Internal factors:

Many businesses listed several internal business factors contributing to the rise of their insurance premiums. 25 per cent of businesses listed a change in the size of their workforce as contributing to the cost of their insurance premiums. The second largest internal factor contributing to rising costs is increased investment in plant and equipment (22 per cent).

Internal factors impacting the cost of business insurance premiums



Several businesses also reported a reduction in premiums due to:

- Change of insurer
- Reduction in assets
- Reduction in coverage
- Increasing excess
- Closure of office space

Four of the main features of rising insurance costs are discussed further:

3.2 NATURAL DISASTERS

The cost of natural disasters throughout Australian history is substantial. Between 2000 and 2012 alone, the insured losses (borne by insurers) totalled \$16.1 billion, an average of over \$1.2 billion per year. The events within Queensland alone have incurred significant costs. Queensland is renowned for its predisposition to frequent natural disaster events. Insurers use data on historical incidents to forecast the likelihood of future occurrences. The more probable disaster events are likely to occur, the higher the insured expenses are. Indicators from Queensland businesses are that their premiums have either increased directly as a result of natural disasters and their claims history or indirectly as insurance companies recover costs or spread risk across other policy holders through cross subsidisation. To cover off on these costs, insurers look to increase premiums to recover their expenses. Unfortunately, Queensland will always be naturally prone to floods and cyclones and as such it is imperative that business owners continue to be supplied with adequate and affordable means of protecting their assets in these circumstances.

CCIQ notes that insurance companies counter that inherently insurance offers a pooled risk solution in that insurance premium rates will fluctuate based on the performance of the entire pool and not any individual's claims frequency or quantum.

3.3 REINSURANCE

A significant factor contributing to an increase in insurance premiums is the cost insurers pay for their own insurance – which is known as reinsurance. In the case of the billions of dollars paid out following recent natural disasters, insurance companies reinsurance costs have increased substantially, which in turn contributes to the higher insurance premiums paid by customers.

Reinsurance is the transfer of risk from an insurance company to a reinsurer. Insurance companies are exposed to large risks that cannot be entirely supported by their own capital. The impact of these risks is managed through reinsurance. The Insurance Act 1973 requires general insurance companies to have reinsurance. This obligation is regulated by the Australian Prudential Regulation Authority (APRA). In many cases, this is purchased from offshore reinsurance companies. This business relationship integrates the Australian general insurance market with the international insurance market. This integration affects Australian insurers' revenues and expenses, and ultimately it's underwriting result. Any increases in reinsurance costs that cannot be absorbed by insurance companies will ultimately be passed on to consumers in the form of higher premiums.

Events in Queensland such as Cyclone Yasi and the 2011 floods, caused global reinsurance companies to charge Australian underwriters higher premiums to cover recurrent risks. Reinsurance represents one of the biggest single costs for insurers, any increase in rates is likely to be felt by businesses through their own insurance premiums.

The ability of reinsurance to provide Australian insurers with a global balance sheet is crucial to doing business domestically. Reinsurance should in fact lower the cost of insurance as, by buying reinsurance, insurers are tapping into a global, diversified balance sheet which allows them to purchase capital/capacity for a cheaper price than if they had to provide it themselves. Rather than reinsurance being a cost to the insurer, it is an enabler, freeing up capital that insurers would otherwise have to put aside for claims and allowing them to reinvest that capital in their business. Therefore, reinsurance costs should not typically have adverse effects on customers, regardless of the level of risk associated with a particular region. This is one area which demands more efficient regulation to prevent distortionary pricing and cross subsidisation.

3.4 MARKET FAILURE

There have been a number of reports that insurers have exited the market particularly in North Queensland and Far North Queensland, leading to a lack of competition between insurance companies. Of the respondents surveyed, 29.1 per cent attributed a lack of competition in their region to the rising cost of insurance. The majority of the respondents located in North Queensland and Far North Queensland nominated a lack of competition in their region as impacting on insurance premium costs.



MOST COMMON INSURANCE PRODUCTS INCLUDE PUBLIC AND PRODUCTS LIABILITY, WORKERS COMPENSATION, GENERAL PROPERTY, PLANT AND EQUIPMENT (INCLUDING MACHINERY AND NON-PASSENGER MOTOR VEHICLES), AND PROFESSIONAL INDEMNITY



5.74%

ON AVERAGE 5.74% OF OVERALL BUSINESS COSTS ARE COMPRISED OF INSURANCE PREMIUMS

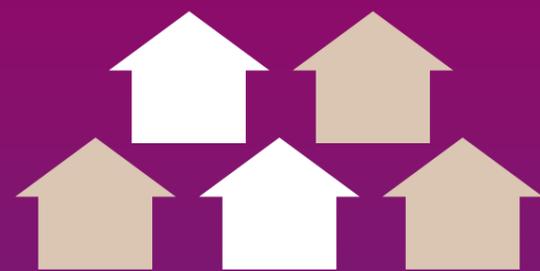


51.3%

51.3% OF QUEENSLAND BUSINESSES REPORTED RISING PREMIUMS HAS LED TO DECREASED PROFITABILITY

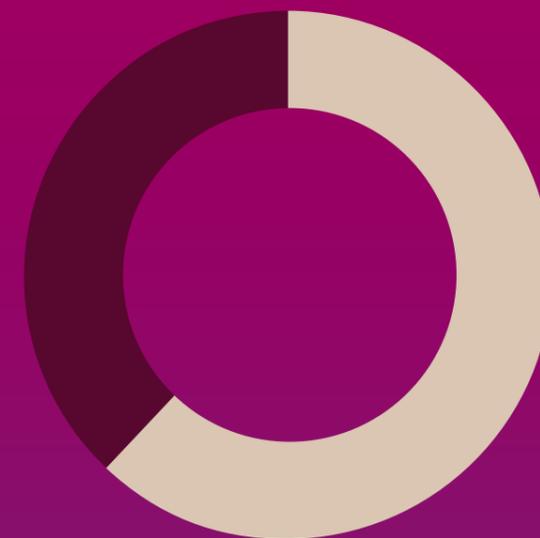
58.2%

ON AVERAGE, RESPONDENTS HAVE EXPERIENCED INCREASES OF 58.2% IN THEIR PREMIUMS OVER THEIR LATEST INSURANCE RENEWALS



2 IN 5

BUSINESSES HAVE CHANGED INSURANCE COMPANIES AS A RESULT OF RISING PRICES



62.6%

OF BUSINESSES BELIEVE THAT INSURANCE COMPANIES' OPERATING COSTS AND PROFIT MARGINS ARE THE PRIMARY CAUSE IMPACTING THE COST OF INSURANCE PREMIUMS



32.3%

OF BUSINESSES REPORTED HAVING A VERY POOR TO AVERAGE EXPERIENCE WITH THEIR INSURANCE COMPANY WHEN MAKING A CLAIM

Many broking services have witnessed a withdrawal of insurers from the Far North Queensland region, because it is a cyclone zone. Whilst remaining insurers benefit from an increase in market share, it also results in a higher exposure to claim costs when a catastrophe occurs. The Insurance Council of Australia (ICA) reported insured losses from Cyclone Yasi (2011) to equate \$1.4 billion, Cyclone Larry (2006) around \$500 million and as at mid-April (2014), Cyclone Ita has an estimated damage bill of \$7.5 million. Despite these figures, comparatively the cost of disaster events in Queensland ranks much lower than other events around Australia which is partially due to population and asset density. Costs for insurance in Far North Queensland appear more disproportionate to the actual loss which has been experienced, especially when coupled with other costs through enhancements in risk mitigation such as changes in building codes and standards.

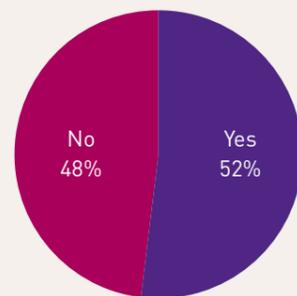
3.5 STAMP DUTY ON INSURANCE

Queenslanders have felt further pressures resulting from the State Government's increases in stamp duty on insurance in the 2013-14 State Budget which saw the rate of duty applicable to insurance premiums for Class 1 (fire, business interruption and liability insurance) increase from 7.5% to 9%; and Class 2 (motor vehicles, professional indemnity and directors and officers) increase from 5% to 9%. The increase is set to generate \$976 million from the duty in 2014/15 which is up from \$615 million in 2012/13. CCIQ advocates that increasing duties on insurance should not be used as a means to balance the books and tackle Queensland's debt. CCIQ believes that these taxes are inefficient and unfair. Whilst small businesses recognise the importance of returning the State budget to surplus and implementing social programs, there is also a strong need to ease the cost pressures of the business operating environment. Such taxes serve as a disincentive to be adequately insured. Given that GST is also charged on insurance, additional duties on insurance are a significant burden for struggling businesses to bear.

4.0 INSURANCE CLAIMS EXPERIENCE

Despite 48.1 per cent of businesses reporting they had not made claims on their insurance in the past 5 years; insurance premiums have increased on average by 58.2 per cent over the past 2 years. This sentiment is also supported by businesses located in disaster prone regions alleging increases in premiums regardless of whether they made claims in the face of natural disaster events.

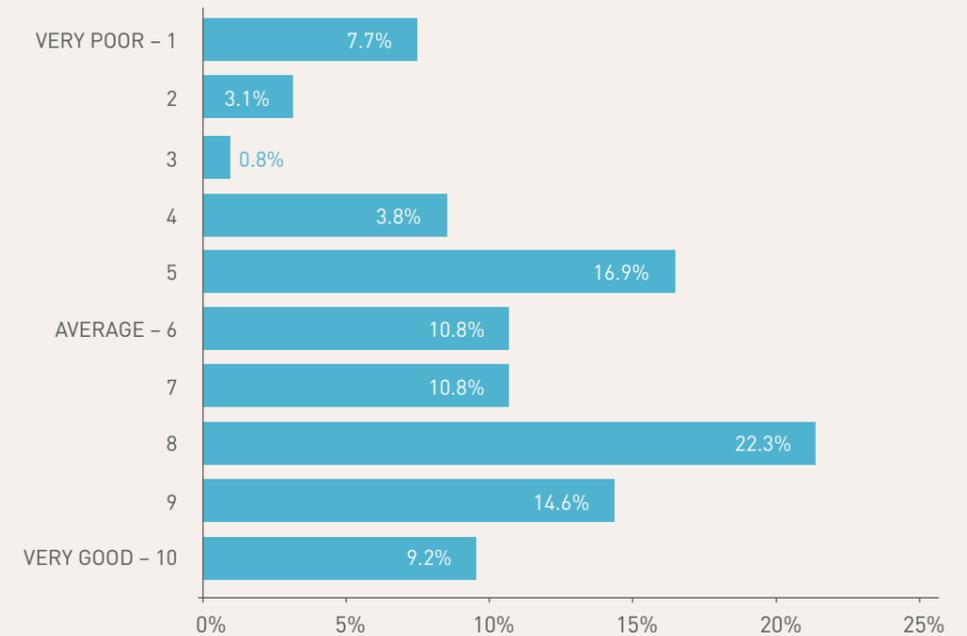
Have you made a claim on your insurance in the past five years?



“Premium by post code is unfair. Flood mapping is needed for the whole state and premiums for flood should reflect the actual risk. The cyclone risk is overemphasised in premiums. Regions more prone to cyclones are less prone to severe thunder storms and then the buildings are built to a higher standard.”
Survey Respondent, Mackay Central Queensland

It is also important to note that of the 52 per cent of respondents who have made a claim on their insurance in the past 5 years, many have noted that there was significant room for improvement in the performance of insurance companies during the claims process. 43.1 per cent of businesses reported having a very poor to average experience with their insurance company while making a claim.

On a scale from 1 - 10, how positive was your experience in making the claim with your insurer



“Repeat cyclones are having an impact on my business insurance, even when the cyclones themselves do not. Within the last three years my insurance has gone up from about \$3000 a year to about \$12,000 a year” Resort owner, Palm Cove North Queensland

“Red tape hampers reasonable settlement timeframes”
Survey respondent, Sunshine Coast

“The extensive paper work required made the labour cost of collating and submitting the claim high” Survey respondent, Brisbane

5.0 SUPPORTED SOLUTIONS

CCIQ are pleased to see the State and Federal Government commit to addressing the unsustainable rises in insurance premiums for small businesses. The State Government together with the ICA have signed a memorandum of understanding (MOU) setting out a program intended to help address the issue of insurance affordability in Queensland. The program of work includes:

- An exchange of data between the ICA and the Queensland Government
- Identification of areas lacking flood mapping data
- Consultation with the ICA on future mitigation planning
- Joint research and development into new and better information to help assess extreme weather vulnerability

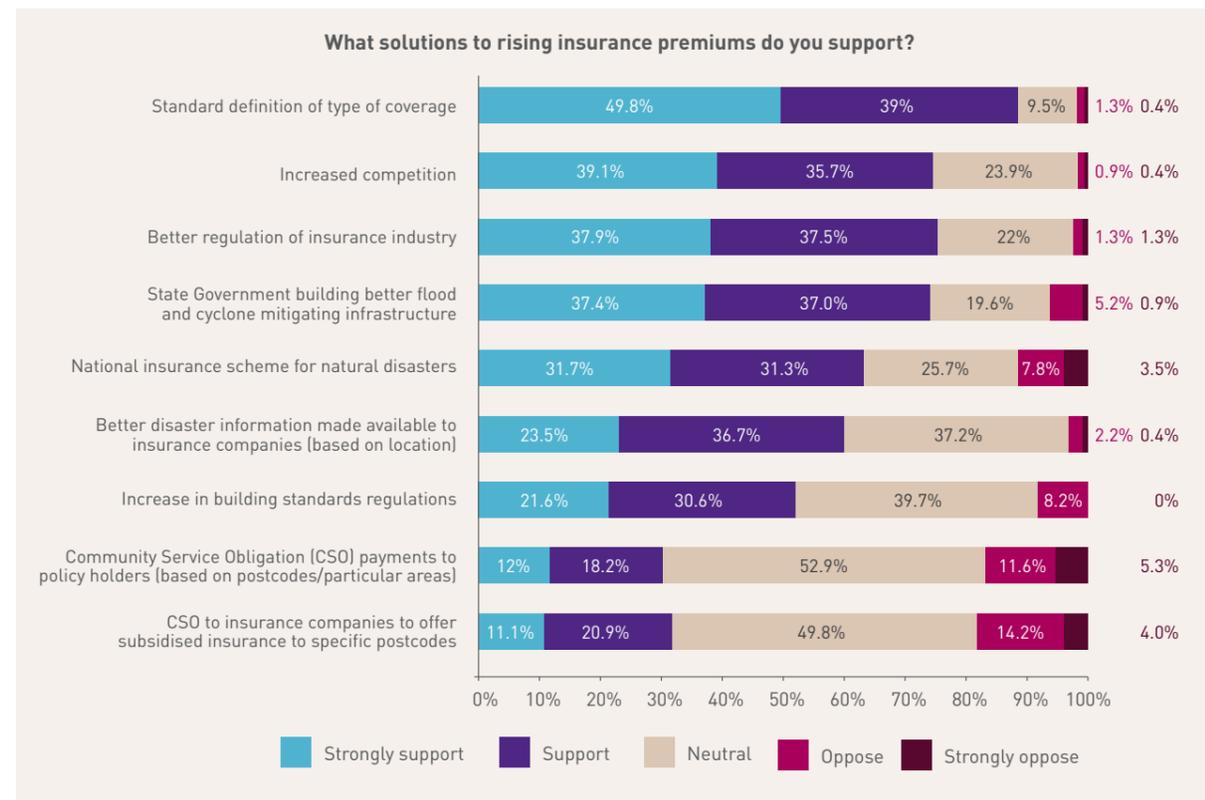
This is a significant step towards helping reduce the uncertainty in assessing risk and calculating insurance premiums for Queensland businesses. The Queensland Government has also made commitments to investing in physical mitigation works. However much more is to be done before businesses begin to realise any tangible cost savings in their insurance premiums.

The ICA also recommended that further work needs to be done on behalf of the Federal Government to ensure that there is appropriate regulation of the insurance industry.

As part of the CCIQ survey, respondents were asked to identify which solutions to rising insurance premiums they would support.

The majority of respondents (88.8 per cent) listed having a standard definition and terms for types of coverage as a preferred solution to rising insurance premiums. Other top listings included:

- Better regulation of the insurance industry (75.4 per cent)
- increasing competition (74.8 per cent)
- State Government building better flood and cyclone mitigating infrastructure (74.4 per cent)
- National insurance scheme for natural disasters (63 per cent)



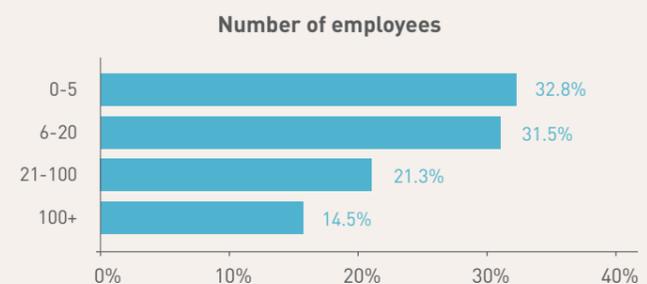
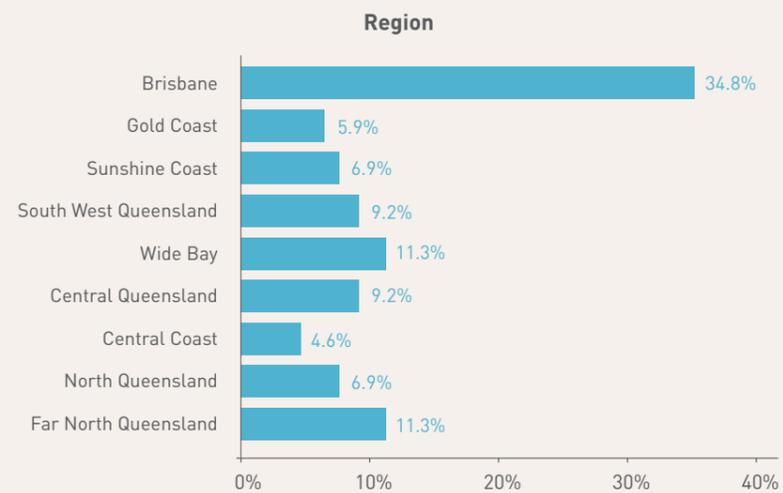
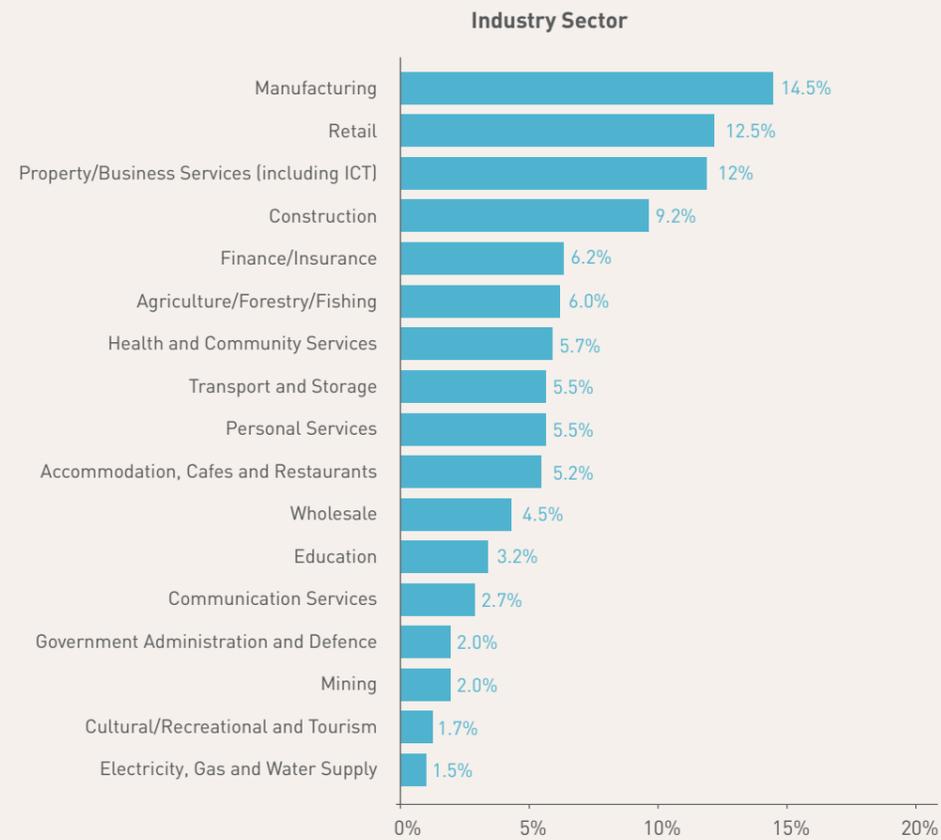
CCIQ notes that whilst a step in the right direction, increased compliance around building codes (eg. Cyclone standard) doesn't assist an insurer with the majority of buildings which are pre-existing and in a lot of cases pre date the applicable building code. Accordingly additional expectations in this area are not necessarily the solution.

6.0 CCIQ RECOMMENDATIONS

There are things the government can do today to relieve cost pressures on businesses in the area of insurance. CCIQ strongly advocates for both the State and Federal Government's working together to achieve better outcomes for businesses. CCIQ recommends the following:

- **Standard definition and terms for all policies.** CCIQ acknowledges that significant changes have occurred to enact regulation to introduce a standard definition of flood in insurance contracts. CCIQ would like to see these changes expanded to include other risks universally defined within policy documents and terms to avoid confusion with the consumer.
- **Building flood and cyclone mitigating infrastructure.** CCIQ acknowledges that the Queensland Government has committed to building flood and cyclone mitigating infrastructure as part of their 10 point action plan with the Federal Government. CCIQ proposes that these actions be carried out as quickly as possible.
- **Reduction or removal of stamp duty on insurance.** Taxes on insurance in Queensland are inequitable and are actively discouraging businesses from adequately protecting their assets with appropriate insurance. CCIQ believes it is time for the State Government to reconsider the burden placed on businesses through insurance taxes. CCIQ recommends that these taxes be removed or reduced.
- **Better regulation of the insurance industry.** CCIQ supports the ICA in recommendations that there be a stronger emphasis on more efficient industry regulation. This includes things such as improving disclosure documents to assist in dealing with misperceptions or misunderstandings among the owners of insurable risks. Currently the documents are large and poorly understood by customers. CCIQ urges that these documents need to be simplified. APRA should also be tasked with relaxing more stringent regulation surrounding reinsurance requirements.
- **Flood mapping to provide better certainty to insurance companies.** Queensland recently released flood mapping studies for 104 flood risk towns across the state. It is yet to finalise studies for a further 60 towns, which was set to be finalised this financial year. CCIQ recommends that the State Government ensure these further studies are completed, particularly for flood prone regions.
- **Allowing foreign insurance companies to enter the market, particularly in North Queensland and Far North Queensland.** CCIQ is concerned that there has been an element of market failure in North Queensland and a lack of competition assisting to keep costs down. Allowing foreign insurance companies to enter the market will provide relief to customers through promoting robust market competition.
- **Federal Government funded engineering assessments for commercially operated buildings.** CCIQ supports the Federal Government's budgetary commitment to the funding arrangements which will provide up to \$12.5 million over three years from 2014 15 to the Queensland Government to provide grants to bodies corporate to undertake engineering assessments of strata title properties in North Queensland. The assessments are to identify risks that can be mitigated. The assessments will provide better information to insurers which will enable them to set premiums that more accurately reflect individual property risks. CCIQ would like to see the Federal Government fund assessments for other commercial building types so that insurers can provide appropriate premiums to business insurance customers.
- **Defined settlement times for insurance claims.** CCIQ urges insurance companies to provide clear settlement time frames to help improve customer experience with making claims on their insurance.

APPENDIX 1: RESPONDENT DEMOGRAPHICS



ABOUT CCIQ

For almost 150 years, we've been taking care of business in Queensland.

WE LISTEN TO YOU, AND THEN WE SPEAK.

Through influence and persistence, we are a loud and clear voice for Queensland business to the media and every political party.

WE WORK HARD FOR YOU.

Business is the engine of our nation's economy, and we are tireless in our efforts to ensure governments at all levels create the best possible conditions for your business to succeed.

WE MAKE YOU MORE COMPETITIVE.

Through industry-certified training, we skill your workforce and enhance your business performance.

WE KEEP YOU SAFE.

We comprehensively protect our members by providing members-only hotlines on OHS, workers' compensation and employee relations, as well as expert legal services.

WE SHARE WHAT WE KNOW.

We keep our members up to date by sharing real business intelligence and research.

WE NETWORK SO YOU CAN GROW.

We create business networks and commercial partnerships so you can leverage your membership into opportunities for your business to reduce costs and grow

BECOME A MEMBER OF CCIQ

It doesn't matter whether you're a new business or at the big end of town. Either way, your membership buys you the knowledge, protection and power that come from belonging to

QUEENSLAND'S LEADING BUSINESS BODY.

Your membership with CCIQ comes with exclusive benefits

PROTECTION

Your membership buys you instant, over-the-phone support from our Employer Assistance Line.*

NEWS

Inform, our monthly member magazine, will be delivered to your inbox.

RESEARCH

Use your exclusive access to our quarterly Pulse research into Queensland business sentiment to set future plans with confidence.

KNOWLEDGE

You'll receive free access to our regular webinars, seminars and policy reports.

NETWORKS

Events, held frequently throughout the state, are ideal opportunities to build your networks.

MYCCIQ

Your membership gives you access to our special member portal, where you can search our extensive resources, manage your account and book training and events.

OFFERS AND TRIALS

As a member, you're offered free product trials and heavily discounted partner offers.

PROMOTION

We list participating members in our exclusive CCIQ Member Directory.

* Not available to Opportunity members.

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