

TasInsure Assessment

TasInsure Assessment

Prepared at the request of Department of Treasury and Finance

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Overview

To respond to the challenge of rising costs of insurance for Tasmanian families, small business and community groups, the Tasmanian Government has proposed to establish TasInsure to deliver **more favourable insurance outcomes for Tasmanians**.

I have been engaged to undertake a high-level strategic assessment and provide initial advice related to the establishment of TasInsure. This assessment has involved familiarising myself with many aspects of the insurance environment within Tasmania, digesting the 20 submissions received through the Government's consultation and interviewing various parties in or associated with the insurance industry.

I have concluded that there is no single solution or 'silver bullet' in this quest for more favourable insurance outcomes for Tasmanians. As for the rest of Australia, Tasmania is serviced by a well developed and well resourced insurance sector overseen by a substantial legislative and regulatory regime. It would be folly not to take full advantage of the strengths and resources of the sector but there are interventions that the Government can make to upgrade the competitiveness, affordability and availability of insurance in Tasmania and to do so without compromising the State's financial position.

TasInsure is not necessarily an insurance company but will be a mechanism or a vehicle for realising the Government's insurance goals. It would be a Government entity that operates or oversees several different components of the State's insurance ecosystem.

In this assessment I put forward a number of recommendations that I consider are most appropriate for further analysis or review by the Tasmanian Government for TasInsure.

Reinsurance Pool

I am recommending that the Government investigate the feasibility of and requirements for establishing a TasInsure operated reinsurance pool that all insurers would use to reinsure Tasmanian weather events.

The purpose of this pool would be to protect Tasmanian property owners from losses arising from major weather events (principally bushfires and floods), in substitution for current insurer protections, and simultaneously to insulate them from contributing to the funding of weather events in other parts of Australia.

Establishing a pool of this type is not a minor exercise and needs to be designed with great care. If well designed there is a real prospect of such a pool reducing average annual costs of property insurance and also limiting the Government's maximum likely exposure within a tolerable limit (depending in part on the Government's appetite for accepting some risk).

Aggregating all high risk weather event insurance or reinsurance within TasInsure could well lead, progressively over time, to a valuable extension of current research, risk management, risk mitigation and other facets of property management and protection associated with these weather events.

Designated Risk Pool

In the SMEs (small to medium enterprises) sector there are some 'hard to place' categories where cover is either unavailable or uneconomic (usually meaning pricing that is considered unaffordable). This is a nation-wide problem and includes for example operators in the tourism, outdoor recreation, live entertainment and hospitality sectors and community associations.

I am proposing that the Government establish a Designated Risks Pool and use it to subsidise in some way the insurance needs of these risks.

The first step is to identify which types of enterprise and which types of insurance cover warrant Government attention. Once that is decided, there is a case for the Government to intervene in some way. There are numerous ways of designing such a pool and a number of options for it.

Comparison Service for home and contents insurance

There is a case for improving competitiveness amongst personal lines insurers with the aim of generating more innovation and more investment in increasing economic efficiency. The solution is through a combination of greater transparency of insurance offerings, including their prices, and facilitation of lower distribution costs.

I am recommending that a comparison service via a TasInsure website be further examined to assess economic viability, potential consumer benefit and effective design.

Insurance Advisory Services for SMEs

Several submissions included proposals for Government to support SMEs to better navigate the insurance market. I consider that business advisory support of this nature has merit. The profile of SMEs in Tasmania is

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dominated by small businesses, and this group in particular could benefit from business advice to improve their insurance outcomes.

I recommend that the Government consider TasInsure providing business advisory services relating to insurance. This may be delivered by TasInsure itself or by leveraging existing Government business advice services.

Insurance Brokers

Insurance brokers play a valuable role in the insurance system, especially in commercial insurances as distinct from consumer insurances (principally home and motor). Brokers earn most or all of their income from commissions. This conflict of interest in accepting commissions can generally be managed but not without adequate disclosure and communication between broker and client

I am recommending that broker remuneration be disclosed by all brokers for all products and that it be aided by brokers being obliged to include a copy of their insurer's quotation and subsequent invoice when presenting their quotes and own invoices to their clients.

Strata Insurance

There are two issues in strata insurance that I consider warrant attention. Both are competition issues and one is also an insurer compliance problem.

I am recommending that regulation of strata managers be extended to disallow them the right to receive any remuneration from insurance brokers. This practice is inappropriate from a consumer perspective It should be eliminated through legislation.

A peculiarly Tasmanian problem is that some owners of strata properties purchase their insurance directly from an insurer for their own lot only instead of including their property in the body corporate's insurance. This practice does not exist anywhere else in Australia and I am recommending that it cease in Tasmania.

Risk Management and Risk Mitigation

Alignment of interests between insurer and insured is the key to effective insurance arrangements Unless the insurer is satisfied that the insured parties are managing their own risks responsibly and prudently, there is no incentive for the insurer to accept the risk.

There are many facets to this topic but the principle applies universally and the greater the community interest in supporting effective risk management and risk mitigation, the lower will be the insurance costs and the economic costs of insured risks.

The submissions already provided to the Government offer insights into what is being done and could be done to improve the risk profile and resilience of the Tasmanian community. I recommend that the Government arrange to assess, evaluate and then prioritise those initiatives that are deemed to be beneficial to the development in coming years of the Tasmanian community and its economy.

Regulated Elements

The Government already plays a significant role in the insurance sector through its fully owned CTP insurer, the MAIB, its regulatory role in workers' compensation, its imposition of stamp duty and fire services levy on policyholders and questions about the civil liability regime. In the time available for this assessment, I have not had the opportunity to examine these five topics and their recent history in any depth but I can offer the following general observations and suggestions:

- Workers' compensation legislation has not been reviewed in more than 20 years and average premiums are higher than in the other States. These two factors suggest a review of the legislation and its operations is warranted.
- A revised system to replace today's version of stamp duty, including the basis or rationale for its collection and any replacement of it, should be investigated.
- The Fire Services Levy is inequitable in several respects. It should be reviewed again and modified or replaced in some way by an alternative that is not collected as a part of insurance premiums.
- Several submissions called for review of the civil liability legislation. This legislation is most important in the 'hard to place' risk category and should be reviewed in the light of issues arising in the tourism, leisure, hospitality, live entertainment and related enterprises and also the not-for-profit sector of community and other like associations.

1. Introduction

Purpose

I have been engaged to undertake a high-level strategic assessment and provide initial advice related to the establishment of TasInsure.

Background

The Government has recognised that rising costs of insurance present a significant cost pressure for Tasmanian families, small business and community groups.

To respond to the challenge, the Tasmanian Government has proposed to establish TasInsure to deliver **more favourable insurance outcomes for Tasmanians**.

Submissions

The Government sought public submissions and 20 were received. I have reviewed these submissions and consulted with representatives of some of the parties who made the submissions.

On the whole these submissions were very informative. They came from insurance industry participants, a range of government and non-government agencies and organisations, industry associations, academics, community groups (commercial and not-for profit) and individuals. Some were clearly self-interested but contained valuable information and propositions. Others were simply informative, explaining issues of different kinds that concerned them. Taken together, they have supplied considerable valuable information and have contributed to my understanding of the Tasmanian environment and to my thinking.

Some of the submissions were critical of the Government's TasInsure announcements as they saw them, in some cases highly critical, others expressed support in principle but could not envisage how **it** might work.

The brief and the concept

I refer to **it** because some submissions were based on the assumption that the Government's intention is to establish a new government insurance office that would either compete directly with the existing insurers operating in Tasmania or would somehow exclude them from or crowd them out of the industry. My view with only a few moments' reflection is that such an ambition would not only be a disruption on an unachievable scale but also an aspiration with high risk, high cost and low chance of delivering in accordance with the background stated above.

The potential

The Tasmanian population, economy and insurance infrastructure are each large enough to justify many of the economic functions of the larger States while also being small enough to operate with nimbleness and independence in taking new initiatives through Government. This characteristic may enable TasInsure to become a pacesetter for other States.

Four key points

1. The nature of TasInsure

The first and most critical point that I wish to make is that fundamentally TasInsure should be a mechanism or a vehicle for realising the Government's insurance goals. It is not necessarily an insurance company but it would be a Government entity that operates or oversees several different components of the State's insurance ecosystem.

2. More favourable insurance outcomes

The second point is that the primary goal is, as stated above, to deliver more favourable insurance outcomes for Tasmanians.

3. The insurance spectrum – from competition to affordability

The third point is that the concerns across the community about insurance comprise a range of questions from competition and fair pricing at one end of the spectrum to some difficult questions at the other end about affordability and availability of insurance, especially for some kinds of small businesses. There are several categories of insurance risk within this spectrum.

4. Analysis of the insurance ecosystem

The fourth point is that modifying in some way the insurance outcomes in an analytical way needs to consider the whole of the insurance ecosystem. This system comprises –

- insurers
- insurance brokers
- reinsurers and reinsurance brokers
- risk management and risk mitigation
- insurance agents
- underwriting agencies
- claims services including loss adjusters
- underwriting platforms
- comparison websites.

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The categories of insurance risk

The different types of insurance risk that need to be catered for across the economy can be regarded as falling into 5 categories –

- A. Mainstream consumer insurance (home and contents, domestic motor).
- B. SMEs (small to medium enterprises) where coverage is available and not generally problematic at prices that seem generally affordable.
- C. ‘Hard to place’ SMEs, including community associations, tourism, outdoor recreation, live entertainment, hospitality and some other areas where cover is either unavailable or uneconomic (usually meaning unaffordable).
- D. Medium to large commercial (larger corporates and their insurable risks such as property, public liability, professional indemnity, workers compensation and commercial motor fleets).
- E. Strata insurance.

There is no single solution or ‘silver bullet’ in this quest for ***more favourable insurance outcomes for Tasmanians***. As is the case for the rest of Australia, Tasmania is serviced by a well developed and well resourced insurance sector overseen by a substantial legislative and regulatory regime. It would be folly not to take full advantage of the strengths and resources of the sector but there are interventions that the Government can make to upgrade the competitiveness, affordability and availability of insurance in Tasmania and to do so without compromising the State’s financial position.

This report

I have explored each of the five categories above according to their main insurance characteristics and the interaction of each one with components of the insurance ecosystem at Point 4 above. I have then prepared a set of options that I recommend be considered by the Government for responding to the potential opportunities for more competitive and more comprehensive insurance coverage of the Tasmanian community and its economy.

The next section of this report outlines the insurance industry landscape. The following section summarises the insurance-related opportunities I have identified and describes the associated options for the Government to consider. There is then a section on financial and risk considerations. The subsequent sections elaborate on the background, explanations and reasons for the options nominated and recommendations made.

Qualifications, reliances and limitations

This assessment has been carried out within a restricted time period (6 weeks). During this time I have been able to familiarise myself with many aspects of the insurance environment within Tasmania, digest the 20 submissions received and interview various participants in or associated with the insurance industry. A comprehensive investigation was not required for this assessment but also could not be completed in the available time.

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Accordingly, I have qualified as best I could the observations, conclusions and recommendations made in the light of these limitations and make no representations as to the accuracy or completeness of the information I have relied upon or used within this report.

This report does not provide financial product or other advice. It has been prepared for the Tasmanian Department of Treasury and Finance as an independent report for use by the Crown. It may not be reproduced for use by others without my prior written consent.

To the maximum extent permitted by law, I am not liable for any loss or damage incurred by any person as a result of use of or access to this report or its contents, including any error in any information or opinions contained herein.

2. The insurance industry landscape

Size of the insurance market

The insurance market in Tasmania in 2025 involved approximately \$1,450m of annual premiums comprising –

Class of insurance	Estimated annual premiums (\$m)*
Householders (building and contents)	360
Domestic motor	330
Commercial motor	80
CTP (MAIB)	160
Commercial property	120
Workers compensation	300
Liability#	<u>100</u>
Total	<u>1,450</u>

* Based on APRA quarterly statistics and MAIB annual accounts – approximate only and include stamp duty and fire services levies. Stamp duty is understood to be about \$150m and FSL about \$100m annually.

includes public and products liability, professional indemnity and directors & officers liability.

The precise numbers are not important but it is helpful to have a sense of scale for the industry and its main products.

The market participants

The market participants in each part of the insurance ecosystem have parts to play within the system –

- *Insurers*

The market comprises a strong group of national insurers plus RACT, which is a market leader in motor and home insurance, and also MAIB as a monopoly CTP insurer.

Except for MAIB, all insurers are authorised by APRA, whose primary role is to see that policyholders' interests are protected.

- *Insurance Brokers*

The brokers play a major role in supporting commercial clients and assisting those clients to obtain the best cover they can find, whether locally or nationally.

Brokers are licensed through ASIC. They act as agents for their clients and generally are expected to approach two or more insurers when arranging insurances.

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- *Reinsurers and reinsurance brokers*

The primary role of reinsurers for Tasmania is to protect the local insurance market when floods, bushfires, storms and other weather events occur. Reinsurance also has a role to play for individual large claims, e.g. a large commercial property fire or a bus crash involving multiple injured persons or fatalities.

RACT and MAIB rely directly on reinsurance markets (with assistance from professional reinsurance brokers) whereas the branches of mainland insurers utilise their corporate parents' reinsurance protections.

Reinsurers and reinsurance brokers supply, in addition to the design and execution of reinsurance capacity, a valuable level of regular advice and information about reinsurance market opportunities for supporting insurers in managing their own financial risks.

- *Risk management and risk mitigation*

The ideal way to reduce insurance premiums is to reduce the costs of claims. Ultimately that means engaging in activities that involve risk management and risk mitigation.

There is a range of specialist consultancies, academic resources, industry and community associations, along with government agencies involved in fire, water, safety, health and other services that have direct or indirect connections with the well-being of the community that interact in their own ways with the insurance ecosystem.

- *Insurance Agents*

Some insurers engage agents to act for them in situations where an insurer has policyholders but no branch office. Insurance agents are most often seen in stock and station agent businesses, among retailers such as supermarkets and suppliers of other financial services such as health insurers and financial planners.

- *Underwriting agencies*

Underwriting agencies usually exist to offer specialist underwriting services to insurers that the individual insurers do not offer through lack of local expertise or resources to do so.

In Tasmania, the underwriting agencies used by local brokers are based on the mainland or internationally, often through Lloyd's of London.

Underwriting agencies are sometimes referred to as MGAs (managing general agents). Their scope of services, specialisations and levels of authority granted by their insurers are many and varied. As such, they supply into some of the gaps in coverage and/or expertise that can exist from time to time in various parts of the insurance market.

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- *Claims services including loss adjusters*

The quality and effectiveness of claims management is fundamental to the success of insurance businesses. That is so whether the claims personnel are employees of an insurer or of an external third party claims agency to whom one or more insurers or underwriting agencies have outsourced their claims management.

Loss adjusters also play an important role, acting in effect as intermediaries between claimants, claims service providers and their insurers.

In Tasmania, most insurance claims are managed by third-party claims managers because only RACT and MAIB have local claims capabilities.

- *Underwriting Platforms.*

There are two main digital platforms available to brokers to obtain quotes and to assist with the administration and other functions contributing to the transaction of many classes of commercial business, especially SME business. They facilitate among other things the ability of brokers to obtain quotes from multiple insurers that they often need for their clients and to do so very efficiently.

- *Comparison websites.*

These websites act as a form of insurance agent. They supply information that enable customers to select their insurance policy without having to contact different insurers individually. Their offerings are restricted, however, to insurers who choose to subscribe to their services and that generally excludes the larger insurers.

Regulatory and other factors

The industry is essentially a normal free market insurance arrangement and regulated by various national agencies including APRA, ASIC and the ACCC.

Within Tasmania, there is State insurance regulation for workers compensation and CTP insurance as compulsory classes of business. Workers' compensation works through licensing by the Government of private sector insurers. CTP is operated by the MAIB (Motor Accidents Insurance Board) as a Government-owned monopoly insurer. In liability insurance, civil liability legislation plays a part regarding the rights of citizens to seek redress if injured by the negligence or actions of a third party.

Additionally the Government imposes stamp duty and fire service levies on insurance policies which are added to insurance premiums and therefore paid for by policyholders.

There are points to be raised about all five of these topics and there is opportunity for reform to improve the effectiveness of all four of them and possibly to reduce insurance premiums as a result. In the time available, however, I have not been able to put together the propositions and options that would open up these topics effectively.

3. Summary of the insurance opportunities to be considered

The options described and canvassed in subsequent sections of this report are summarised below. In most cases they relate to aspects of competition, including meaningful transparency, affordability and availability.

Insurers

A. Mainstream consumer insurance (home and contents, domestic motor)

Competition

The case for improving competitiveness amongst personal lines insurers with the aim of generating more innovation and more investment in increasing economic efficiency. The solution is through a combination of greater transparency of insurance offerings, including their prices, and facilitation of lower distribution costs –

- Greater transparency would improve consumer access to pricing and other insurer information.
- Lower distribution costs for some insurers, particularly marketing and advertising costs can contribute to lower prices.

Options for achieving these two goals include but may not be limited to –

- (1) establishing a TasInsure platform to operate as a comparison service via a website that is open to all insurers to subscribe to on a voluntary basis
- (2) as for (1) but oblige all insurers to subscribe
- (3) as for (1) or (2) but to extend the reach through creating support services within TasInsure branches or a TasInsure call centre.

Option (3) may be uneconomic – expensive to operate for minimal gain – but in my opinion (1) and (2) each has the potential to increase market competitiveness and thereby hold all insurers more accountable than they are today for fair pricing.

Each of these options warrants examination as to its economic viability, potential consumer benefit and effective design including overcoming or neutralising the potential disadvantages.

Availability and affordability

Both availability and affordability for home and motor insurance are generally good across Tasmania except in some areas where bushfire risk or flood risk is seen as high risk by insurers.

This topic is covered separately in Section 7 under Reinsurance and reinsurance brokers.

B. SMEs where availability is good

This market segment relates to SMEs (small to medium enterprises) where coverage is generally available and not generally problematic. The market is serviced largely by brokers but some insurers also offer direct cover for some SMEs.

Brokers assist market competitiveness because their responsibility is to their clients to obtain the best prices and policies for the client's needs. They are not agents of insurers and are obliged to work in the best interests of their clients.

Competition, availability and affordability

In summary, this category is by definition one where availability and affordability are not generally problematic, as nominated above. That means that some SMEs in high risk areas (flood or bushfire prone) or where the broker and insurer have assessed their risk management requirements as not being met are in the 'hard to place' category.

There are, however, disclosure gaps for most insurance brokers which, if overcome, would benefit the ability of broker clients to communicate on an improved footing with their brokers on remuneration and to be better informed about the roles of broker and insurer. There is no competitive downside to SME clients to improved disclosure and greater accountability of insurer and broker can be expected to flow in some cases from improved disclosure.

Several submissions included proposals for Government to support SMEs to better navigate the insurance market. I consider that business advisory support of this nature has merit. The profile of SMEs in Tasmania is dominated by small businesses, and this group in particular could benefit from business advice to improve their insurance outcomes.

Two examples from submissions illustrate the potential –

- from the Tourism Industry Council

“Comments received in delivering this work revealed that some operators had success with insurance through taking the time to audit their cover and seek advice from outside the tourism industry on what questions to ask that might assist in lowering their risk profile. Given around 74% of businesses use a broker and 55% of businesses say they don't shop around, there is clearly some opportunity to work with operators to help them approach insurance in a more effective way.”

- from Hospitality Tasmania –

“Advice, guidance and education It will also be important for Tasmania's hospitality businesses to be provided with education, advice and guidance on ways to reduce their levels of risk and hence reduce their insurance premiums.”

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I recommend that the Government consider TasInsure providing business advisory services relating to insurance. This may be delivered by TasInsure itself or by leveraging existing government business advice services.

C. 'Hard to place' SMEs

This category includes community associations, tourism, outdoor recreation, live entertainment, hospitality and some other areas where cover is either unavailable or uneconomic (usually meaning unaffordable). It is an important category to be supported. It is a nation-wide problem but neither the Federal Government nor any State Government has paid full attention to it in the last 5 years or so since it has emerged as a national problem.

Competitiveness

Competition ceases to be an issue in the insurance market if there are no insurers interested in accepting certain classes of risk or accepting the risk only at unachievable prices. In other words, the issue is not competition but willingness of insurers to underwrite these risks.

Availability and affordability

There are three main types of 'hard to place' risks –

- *misadventure risk* where risk of accident affects insurability.
- *poor risk management* where inadequate attention has been given to insurer risk management or risk mitigation requirements.
- *moral hazard risk* where insurers don't wish to be involved with landlords who have tenants that the insurers regard as undesirable.

The community need is for the first of these types, misadventure risk, to be tackled by the Government. I refer to these risks as **Designated Risks**: the first step is to identify which types of enterprise and which types of insurance cover warrant Government attention. Once that is decided, there is a case for the Government to intervene in some way.

I leave aside for the purposes of this report the second and third types of risk because the second one, poor risk management, is the responsibility of the owner and the third one, moral hazard, is the responsibility of the owner or landlord.

It is likely that a modest Government subsidy would be required to transform the Designated Risks from unaffordable to affordable because the number of policies involved and the aggregate premium volumes are both low.

In summary, I am proposing that the Government establish a **Designated Risks Pool** and use it to subsidise in some way the insurance needs of these risks.

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There are numerous ways of designing such a pool and a number of options for it are described in Section 6 which also includes a chart to illustrate the range of options.

The cost of this initiative would be modest if well designed and administered.

D. Medium to large commercial

This category concerns larger corporates and their insurances for property, public liability and professional indemnity, workers compensation and commercial motor fleets. They generally purchase their insurances on a corporation wide basis.

These entities are not seen as targets of the Government's goal of improving insurance outcomes for Tasmanian households and businesses except in respect of their workers' compensation and CTP insurances. These two classes are treated separately in Section 11.

E. Strata insurance

There are two issues in strata insurance that warrant attention. Both are competition issues and one is an insurer compliance problem –

Intermediary remuneration

Strata insurance pricing by the underwriting agencies who write most of the business and insurers who write some of the business are probably all competitive on price but where a broker and strata manager are both engaged by the body corporate there is conflict of interest in many cases where the broker rebates most or all of the 20% commission to the strata manager and then adds a broker fee to the insurance premium before invoicing the body corporate.

This practice is inappropriate from a consumer perspective and should be eliminated through legislation, as is likely to happen this year in NSW and is under consideration in some other states. The solution is to oblige strata managers to rely solely on the body corporate for fees to cover any insurance-related costs and to be precluded from receiving any remuneration from insurance brokers.

I am recommending that regulation of strata managers be extended to disallow them the right to receive any remuneration from insurance brokers.

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Insurance of individual lots

A peculiarly Tasmanian problem is that some owners of strata properties purchase their insurance directly from an insurer for their own lot only instead of including their property in the body corporate's insurance. This practice does not exist anywhere else in Australia because it is contrary to the law and, by my understanding, this practice is also unlawful in Tasmania.

I believe that this practice should cease in order to avoid unnecessary disputation and in some cases litigation within members of a body corporate.

Reinsurance and reinsurance brokers

Reinsurers and reinsurance brokers play an important role in the insurance industry, principally in the design and execution of reinsurance capacity.

Weather events and the associated reinsurance costs and potential effects of inadequate cover on the economy and the affected policyholders is an important topic. The primary weather events in Tasmania are bushfires and floods.

The main losses that extreme weather events cause in Tasmania are property damage, both residential and commercial.

There are also reinsurance needs in non-property classes.

There is a distinct possibility that a TasInsure operated catastrophe reinsurance facility or pool could be designed and implemented in a manner that would benefit the Tasmanian community and insulate it from the effects of future severe weather events on the mainland.

On the other hand, the Government would also be taking responsibility for the reinsured costs of future bushfires and floods that occur in Tasmania. That responsibility can be mitigated by careful design, future investment in the mitigation of bushfire and flood risk across the state and by the facility or pool purchasing its own reinsurance ('retrocession') in the commercial market.

More information about the nature of such a pool and how it would work is presented in Section 7, including a chart to illustrate the concepts.

Proposal

I am recommending that the Government investigate the feasibility of and requirements for establishing a TasInsure operated reinsurance pool that all insurers would use to reinsure Tasmanian weather events.

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Insurance brokers

The broking field often comes under question for its use of commissions, which represent a conflict of interest but one that can be managed under the right conditions. The main issue to be considered is disclosure for transparency and openness with clients.

Brokers can make an important contribution to competition by lifting the scope and quality of their client disclosures.

There are three main options for broker disclosure –

- (1) continue as at present and rely on the requirements of the Corporations Act only and NIBA's Code of Practice
- (2) extend the scope of disclosure of broker remuneration to all brokers for all products
- (3) ban insurer payments to brokers (commissions and fees).

I am advocating Option (2), that broker remuneration to all brokers for all products be implemented simply by obliging brokers to include a copy of their insurer's quotation and subsequent invoice when presenting their quotes and own invoices to their clients.

Risk management and risk mitigation

Alignment of interests between insurer and insured is the key to effective insurance arrangements, hence the importance of the need for effective risk management and investment in risk mitigation and community resilience.

Among the submissions received during the TasInsure consultation were some substantial items of input on this subject. Some were descriptions of problems unresolved or difficult to resolve, others were constructive ideas and proposals for achieving better risk management, lower risk and greater community resilience.

Proposal

Input from the various submissions represents, as I see it, a prelude to a wide ranging and potentially valuable agenda for the Government and for many non-government interests within the Tasmanian community. Given the limited scope of this strategic assessment, however, I can do no more here than point to this input.

I recommend that the Government arrange to assess, evaluate and then prioritise those initiatives that are deemed to be beneficial to the development in coming years of the Tasmanian community and its economy.

See further in Section 9.

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Regulated elements (MAIB, WC, SD, FSL, civil liability)

The Government already plays a significant role in the insurance sector through its fully owned CTP insurer, the MAIB, its regulatory role in workers' compensation, its civil liability regime, and its imposition of stamp duty and fire services levy on policyholders.

In the time available for this assessment, I have not had the opportunity to examine these five topics and their recent history in any depth but in Section 11 I offer some general observations. They encompass different aspects of the desirability for Government review of each of these five topics.

4. Financial and risk considerations for the State

There will be a need to establish a new Government entity for the purpose of managing and operating TasInsure. Under the range of options put forward in the previous section, there are 2 topics where the Government faces some financial risk and potential costs. For all other topics, beyond set up costs there will be some regular direct costs to fund some community services and some other services of a regulatory nature

The insurance risk topics are the establishment and operation of a Reinsurance Pool and for establishing and operating a Designated Risks Pool –

Reinsurance Pool

The purpose of this pool is to protect Tasmanian property owners from losses arising from major weather events (principally bushfires and floods) and simultaneously to insulate them from contributing to the funding of weather events in other parts of Australia.

Establishing this pool is not a minor exercise and needs to be designed with great care.

From a financial viewpoint, the key parameters are-

- What would be the likely annual reinsurance premiums that Tasmanian property owners (residential properties, strata bodies corporate and commercial properties) would need to pay to fund claims on the pool?
- How would the pool's finances interact with the risk and reinsurance requirements of insurers?
- What would be the likely annual contributions, if any, required of the Government?
- What would be the nature and quantum of risk to which the Government would be exposed in the event of a major bushfire or flood?
- How will these matters compare financially with the status quo?

The design of the pool will have a major impact on the answers to these questions. They need proper investigation but, as explained in Section 7, there is a real prospect of such a pool, if well designed, reducing average annual costs of property insurance and also limiting the Government's maximum likely exposure within a tolerable limit (depending in part on the Government's appetite accepting some risk).

While it would be premature to predict the outcome of such an investigation, it is possible to make a rough estimate or put a broad range upon the total costs of purchasing reinsurance for the whole market today. We can do so by reference to RACT's position because its reinsurance premiums are in the public domain and estimates of its market share can also be made.

- According to RACT's 2025 annual report, it paid \$24m in reinsurance premiums to protect its portfolios which received total premiums in the year of \$180m before stamp duty and FSL. Most of these reinsurance premiums would have been to protect the householders portfolio (because motor insurance requires rather less reinsurance) and householders premiums were probably around half of the total of \$180m.

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- The total market premiums for property insurance (see Section 3) are estimated at \$480m (householders \$360m and commercial property \$120m). Deducting stamp duty and FSL would likely reduce this amount to around \$350m.
- On a simple pro rata basis comparing RACT's home portfolio and the whole market's property insurances, and allowing for some rough approximations, we can suggest that, if the whole market had reinsured last year in similar fashion to RACT and without parental support, total reinsurance premiums for property insurance would be somewhere in the range of \$60m to \$120m.

To carry this kind of analysis any further at this stage and to consider the Government's potential risk exposure, given how much investigation would be required, would clearly be premature.

It is worth adding here that, by aggregating all high risk weather event insurance or reinsurance within a single TasInsure facility could well lead, progressively over time, to a valuable extension of current research, risk management, risk mitigation and other facets of property management associated with these weather events.

Designated Risk Pool

The purpose of establishing and operating a Designated Risk pool is to support and, if and when required, offer some subsidies towards dealing with the 'hard to place' risks which have been specified as *Designated Risks*.

This pool is of a very different and much smaller scale to the Reinsurance Pool described above. Noting that most of the claims likely to be made on such a pool would be public liability claims, and that total annual liability premiums as in section 3 are about \$100m across the State, we can make a rough estimate of the size and risk exposure for this pool.

The number of enterprises involved in this pool would likely be a modest proportion of the \$100m currently being paid in premiums, probably less than \$20m and perhaps \$10m or less. A Government subsidy, on either premiums or claims, would likely be less than \$10m annually and the risk relatively small, depending on the details of pool design.

It should be noted that, by pooling all of these *Designated Risks* within a TasInsure pool could have three valuable long term effects –

- The first and a part of the stimulus for the TasInsure venture is economic benefits from wider and/or better insurance coverage for Designated Risks,
- Secondly, by aggregating these risks across the State, insurer pricing would be less defensive and likely to result in lower pricing and/or increased availability, and
- Thirdly, risk management and risk mitigation research, understanding and enterprise practices can generate a range of community benefits. They have the potential to improve such aspects as community safety and well being, better land use and management and better regulation.

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Non-insurance risk costs

The administrative and other costs associated with the other options summarised in Section 3 would arise from implementation and operation options introduced and how they would be set up and managed.

Staffing would be required for the two pools (Reinsurance and Designated Risks) and for other initiatives such as a market comparison website and monitoring or regulating insurer and broker participation in disclosure and market access.

Funding the non-insurance risk costs

Although the set-up costs of the various TasInsure initiatives will presumably need to be funded by the Government, some of the continuing operating costs could probably be funded, at least in part, by the insurance industry and perhaps any other beneficiaries of the initiatives. It is a direction worth exploring in due course provided steps are not taken that would compromise insurance prices.

5. Insurers – four categories

A. Home and motor - mainstream consumer insurance

The main questions that arise relate to *competitiveness* and therefore *fair pricing* among the participating insurers. The market is dominated by RACT as the sole local insurer and several other insurers that operate as access points (via call centres and their websites) for mainland Australian insurers.

Availability and affordability are important questions for properties located in areas exposed to flood, bushfire and major storm activity. The costs of reinsurance for these weather events are borne by all insurers but competitiveness at the state level is unknown and effective costs of reinsurance are hard to ascertain. See further in Section 7.

Competition

The existing mechanisms for owners of residential properties and motor vehicles to obtain insurance cover are –

- to obtain a quote for cover directly from an insurer through a branch visit, online to an insurer’s website or by telephone to an insurer’s call centre, then to follow up a quote with either renewal of an existing policy or purchase of a new policy
or
- to approach an insurance broker, asking the broker to arrange quotes and obtain cover
or
- to approach an agent, directly or online, for example a stock and station agent or a supermarket or other organisation that makes offers from the insurer for whom the agent is acting as distributor
or
- to use a comparison website to arrange a quote and cover.

The first of these choices represents direct purchase from the insurer and the dominant method within the insurance market. The other 3 are indirect purchases by way of an intermediary. In all such cases, the insurer will pay a commission or fee to the intermediary when a policy is written.

On the surface, this access to insurance comprises a competitive market as there are two insurers with one or more branches in Tasmania, several who offer cover directly via their own websites or call centres, several whom brokers can approach, several who are appointed as agents and some others offering to sell through comparison websites.

This competition has some limitations, however, because of the limited convenience and, for some consumers, limited access to seek out 2 or more quotes. It is also the case that, except in the first option referred to above, a commission or fee will be payable by the insurer to the intermediary, adding to insurer overheads which in some cases lead to higher prices than where consumers buy direct.

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It is not clear how these factors limit competitiveness but there are possible ways of improving convenience and access through TasInsure aimed at improving competitiveness. Greater competitiveness should ensure more innovation and more investment in increasing economic efficiency. The solution is through a combination of greater transparency of insurance offerings, including their prices, and facilitation of lower distribution costs –

- *Greater transparency* means creating more visibility for consumer access to pricing and other insurer information.
- *Lower distribution costs* for some insurers means reducing the high costs of marketing and advertising for insurers, particularly those with small market shares.

Both of these possibilities will be unpopular with established insurers because they have the potential to reduce their competitive advantages, effectively diminishing the barriers not to entry (there are already enough market participants for a fully competitive market) but to building more viable market shares for the smaller players. The idea is to reduce friction costs within the market and, if that can be achieved, initially the smaller competitors might benefit more but, over time, competitive dynamics should improve the efficiency of the whole market.

Innovation can have several dimensions, e.g. cheaper and better ways for insurers to prepare and deliver quotes, better techniques for encouraging driver safety or home maintenance and better arrangements for organising and delivering claims services.

The context includes the long-standing insurance market and legislative environment in Australia where pricing is unregulated, with market competition being relied upon to deliver fair prices and with competition laws limiting cartel and other anti-competitive behaviour.

Potential mechanisms for achieving greater transparency and reduced distribution costs include but may not be limited to –

- (1) establish a TasInsure platform to operate as a comparison service via a website that is open to all insurers to subscribe to on a voluntary basis
- (2) as for one but oblige all insurers to subscribe
- (3) extend the reach of (1) and (2) to improve access to the TasInsure platform by creating TasInsure branches or a TasInsure call centre where consumers can access the platform with the assistance of TasInsure staff.

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The main reasons why some form of comparison service or platform can increase competition are that –

- commercial comparison websites charge high commissions and/or fees, often 20% of the premium or other burdensome fees, thereby discouraging the more successful insurers from subscribing and, for those who do subscribe, limiting their pricing flexibility and their competitive positions: removing constraints such as these has the potential to enhance competition
- a TasInsure website-based service or platform could operate with much lower overheads than commercial offerings, a wider scope of information for each insurer and more insurers participating. The result would be clearer competitive information, greater community access to insurance information and lower commissions and charges than commercial comparison sites with their high charges and low volumes.

There are potential disadvantages to these options. They include –

- diminution of the competitive advantage of those insurers who have invested in their own distribution networks, especially those already offering direct cover
- possible over-emphasis of the importance of price for consumers in buying insurance because –
 - the quality and range of services such as policy conditions and claims support can vary by insurer, with those details being lost in a simple price comparison
 - different product and policy features and different service levels among some insurers may be sacrificed to enable lower prices, only for policyholders to discover later, probably at claim time, that their policy coverage was inadequate or not what they expected.

The overall effect could be a ‘dumbing down’ of insurance products and services over time it. It could create incentives for consumers to underinsure (i.e. to purchase less cover, by scope or by quantum, and would be prudent for their home or business), leaving them with inadequate cover or none at all in circumstances that they did not foresee.

These potential disadvantages in a government-sponsored comparison service could be minimised or avoided by careful attention to its design.

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Considering these 3 options –

Option 1 (voluntary insurer participation) may limit the disadvantages and also achieve the transparency goal.

Option 2 (compulsory insurer participation) may also limit the disadvantages but could be ‘over-kill’, requiring greater regulation than option one, and could prejudice the quality and scope of home and motor insurance offerings and services over time.

Option 3 (TasInsure branches and/or a call centre) is a variation on 1 and 2 for the purpose of increasing access to TasInsure services. The economics of options 1 and 2 would need to be tested in the first instance and, if either is thought to be viable, extension to deliver Option 3 would then need to be assessed separately. It would require additional resources and cost. Its additional benefits may be limited.

Option (3) may be uneconomic – expensive to operate for minimal gain – but in my opinion (1) and (2) each has the potential to increase market competitiveness and thereby hold all insurers more accountable than they are today for fair pricing.

I am recommending that each of these options be examined as to its economic viability, potential consumer benefit and effective design including overcoming or neutralising the potential disadvantages.

Availability and affordability

For properties located in areas exposed to flood, bushfire or major storm activity, insurers will normally charge higher premiums to reflect their assessment of the risk for each individual policyholder.

In today’s ‘higher tech’ environment, insurers and reinsurers are able to assess individual properties in much more detail than they used to. The outcome is essentially less pooling of overall insurance risk, with some policyholders paying less than they used to and others paying more.

It appears that availability of insurance is very high for residential properties assessed by insurers as high risk but the premiums for some properties are believed by their owners to be unaffordable. See further below under Reinsurers and reinsurance brokers.

B. SMEs where availability is good

This market segment relates to SMEs (small to medium enterprises) where coverage is generally available and not generally problematic. The market is serviced largely by brokers but some insurers also offer direct cover for some SMEs.

Brokers assist market competitiveness because their responsibility is to their clients to obtain the best prices and policies for the client's needs. They are obligated to test the market on behalf of their clients, usually finding 2 or more quotes for each client request. They tend to place business with a mixture of national insurers and specialist underwriting agencies.

It is likely that most SMEs using Tasmania-based brokers are receiving insurance services (premiums and policies) on terms that are commensurate with their counterparts or with like businesses on the mainland.

Competition, availability and affordability

In summary, this category is by definition one where availability and affordability are not generally problematic, as nominated above. That means that some SMEs in high risk areas (flood or bushfire prone) or where the broker and insurer have assessed their risk management requirements as not being met are in the 'hard to place' category.

C. 'Hard to place' SMEs

The scope of this topic warrants its own section in this report – see next Section 6.

D. Medium to large commercial

This category concerns larger corporates and their insurances for property, public liability and professional indemnity, workers compensation and commercial motor fleets.

These corporate entities, many of them operating in Tasmania as branches or subsidiaries of mainland or foreign businesses, generally purchase their insurances on a corporation wide basis.

In Tasmania, businesses are obliged to obtain both CTP and workers compensation insurance locally for their vehicles and employees. See brief comment in Section 11 on these two classes of business. Otherwise these entities are not seen as targets of the Government's goal of improving insurance outcomes for Tasmanian households and businesses.

E. Strata insurance

Strata insurance is written by underwriting agencies operating nationally, each one supported by one of the major national insurers. For smaller bodies corporate, typically 2 to 4 lot properties, some insurance is underwritten directly by some personal lines insurers.

The market is reasonably competitive across the country and Tasmania has a smaller proportion of strata properties than other States. There is therefore less scope for price reductions from insurers and underwriting agencies unless commission rebates payable by brokers to strata managers are eliminated.

There are two issues that arise in strata insurance. One is an Australia-wide problem that is in course of resolution in NSW and under debate elsewhere. It relates to conflicts of interest for intermediary charges by brokers and strata managers. The other is a uniquely Tasmanian problem and concerns owners taking out their own insurance.

Conflicts of interest for brokers and strata managers

See below under Insurance brokers.

Single lot insurance

The prevalence of lot owners taking out their own individual insurance, instead of through the body corporate, is contrary to the law but condoned by at least one insurer, generates disputes and complications not seen elsewhere in Australia.

No insurers should be offering single lot insurance.

6. 'Hard to place' SMEs

There is a range of SMEs whose insurances are hard to place, i.e. insurers show little interest in these entities, usually because they are exposed to levels of risk that insurers regard as undesirable to accept at all (meaning not available) or are acceptable only at a price that the enterprise is unable or unwilling to pay (unaffordable).

Some of these entities are commercial businesses, others are not-for-profit organisations.

The types of entities concerned embrace many community associations and events, adventure tourism and hospitality, agriculture in its various forms, live entertainment and some other areas where cover is either unavailable or uneconomic (meaning unaffordable in many cases). The most common types of risk for which insurance is problematic are property in high risk areas, public liability and workers compensation.

There are also difficulties with many older buildings such as hotels where building integrity and compliance with health and safety licensing, heritage and other requirements are difficult for owners to meet. Insurers view these enterprises from a risk management perspective and may impose their own risk management or mitigation requirements as conditions for accepting insurance risk at an affordable price.

Competitiveness

Competitiveness ceases to be an issue in the insurance market if there are no insurers interested in accepting certain classes of risk or accept the risk only at unachievable prices. Without entering a semantic debate on whether this is market failure, it is not competitive issues and becomes an issue for the Government in some segments of the economy.

Availability and affordability

An important feature or facility of TasInsure will be to overcome these problems of lack of availability or affordability for hard to place risks where it is deemed by the Government to be important, for economic and/or social reasons, that these entities are able to obtain insurance.

Generally speaking, if the problem is one of risk management, e.g. where a farmer has failed to undertake appropriate maintenance or health and safety measures, insurance problems may be of the owner's own making.

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There are 3 main classes of 'hard to place' risks –

- *misadventure risk* such as for hospitality, tourism, community and school events, some leisure ventures) where risk of accident affects insurability.
- *moral hazard risk*, for example some enterprises where gambling, tobacconists, tattoo parlours and other tenancy ventures or activities take place that are regarded by insurers as high risk.
- *poor risk management*, in situations where insurance would be available at an affordable price if the insured had paid proper attention to risk management and risk mitigation actions, often as recommended by an insurer or broker.

The first of these classes is a concern for government, the community and the economy. The 2nd is the responsibility of the insured and the 3rd is, in principle, a matter between the landlord and tenant.

I concentrate here on the misadventure risk and refer to such risks generally as *Designated Risks* (a common alternative label in the US is *assigned risks*).

Otherwise, however, there may be an insurance market barrier that the Government can overcome through a range of different possible initiatives. They include taking on part or all of the risks itself, i.e. acting as an insurer or reinsurer and subsidising some premiums in some form so that private insurers could offer cover.

As simple as these ideas might sound, however, the topic is not a simple one and the hard to place risks in Tasmania generally reflect a similar set of problems across the country for the enterprises concerned. And it is problematic as they have become, they do not appear to have been solved in an effective way anywhere across the country. To do so requires government intervention of some kind and there are several ways of doing that. An initial step is to identify which types of enterprise and which types of insurance cover warrant government attention. Several of the submissions presented to the Government during the TasInsure consultation gave valuable input for this purpose.

There are three key elements to solving this *Designated risk* problem. They are insurance cover, management and distribution –

- insurance cover is about who bears the underwriting risk,
- distribution is about how the customer obtains the insurance, and
- management is about establishing an effective chain of interaction from insured to broker to insurer or from insured directly to the insurer.

Regarding the insurance cover, the main options for a government venture are, as I see them, summarised in the diagram below which identifies, among other things, three dimensions of the construction of such a venture –

- 5 permutations for the insurance underwriting
- 4 permutation for managing and administering underwriting and claims

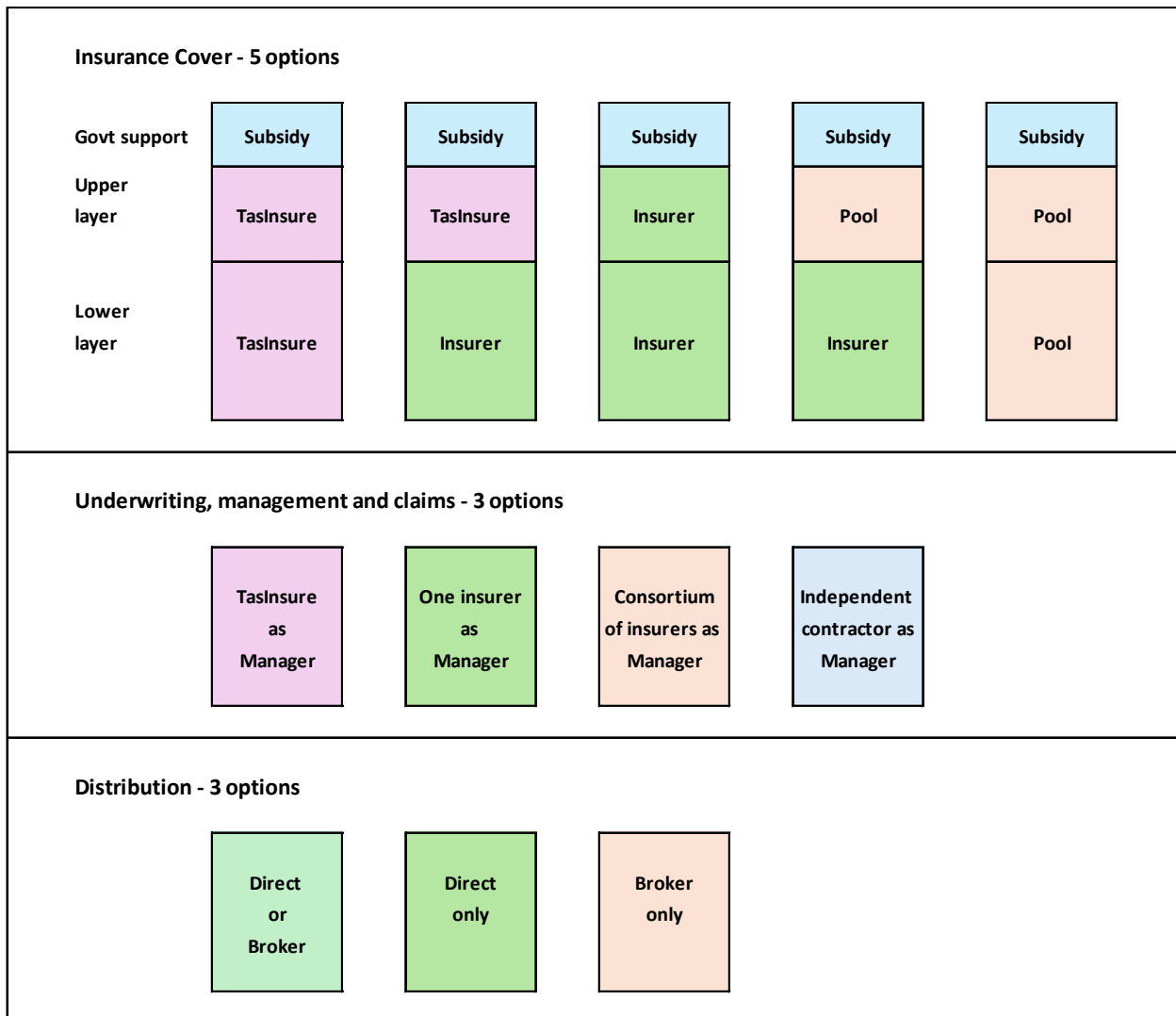
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- 3 distribution options.

These permutations embrace different options for participation by TasInsure as insurer or reinsurer and/or as manager (and TasInsure need not do either) and one or more other insurers participating as underwriters and/or managers. Distribution could include or exclude brokers and could include or exclude direct access by client to the manager.

These various options are depicted in the diagrams below.

Designated risks - three dimensions



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Considering briefly what these options illustrate –

On insurance cover

- a modest Government subsidy would be required to transform the *Designated Risks* from unaffordable to affordable (modest because the number of policies involved and the aggregate premium volume are both low)
- if TasInsure were to operate as an insurer itself (and that is not clear at this stage), it could either write the whole of each risk (the first box) or the upper layer only (2nd box) for example to cover only claims exceeding an amount such as, say, \$50,000 or \$100,000
- if TasInsure is not involved as an insurer, a pool of several or all insurers operating in a single consortium could take the whole of each risk (3rd box) as for TasInsure in the 2nd box but a different insurer; the different insurer could be MAIB, RACT as a local insurer or some other combination of local and national insurers
- each insurer could write both layers, i.e. take the whole risk, and then receive a subsidy in the event of claims exceeding the upper layer threshold.

On management, including underwriting and claims

- there are four alternative management arrangements displayed. They are a single insurer only (Tasinsure or another), a consortium of insurers or an independent contractor that is not an insurer.

On distribution

- risk proposals could be brought to the manager either directly from the enterprise or through a broker.

Government support

It is assumed that a Government subsidy will be needed to support *Designated Risks* because the private market does not make the cover available in an affordable way. This Government support would need to be in the form of a subsidy but the subsidy could come in two forms –

- (1) a premium subsidy so that all potential claims are fully funded before they occur, or
- (2) a claim subsidy payable only when claims occur that exceed the lower layer or, alternatively and depending how it is set up, that exceed the upper layer of cover.

Upper and lower layers

The insurance cover could be provided in full by a single insurer, whether that be TasInsure or the customer's own insurer, or by a consortium of insurers. The depiction above may not be exhaustive but it illustrates clearly enough how the insurance could be arranged for the 'hard to place' risks.

7. Reinsurance and reinsurance brokers

As outlined in Section 2, the primary role of reinsurers for Tasmania is the need to protect the local insurance market when floods, bushfires, storms and other extreme weather events occur. Reinsurance also has a role to play for individual large claims, e.g. a large commercial property fire or a bus crash involving multiple injured persons or fatalities.

RACT and MAIB rely directly on reinsurance markets (with assistance from professional reinsurance brokers) whereas the branches of mainland insurers utilise their corporate parents' reinsurance protections.

Reinsurers and reinsurance brokers supply, in addition to the design and execution of reinsurance capacity, a valuable level of regular advice and information about reinsurance market opportunities for supporting insurers in managing their own financial risks.

Weather events and the associated reinsurance costs and potential effects of inadequate cover on the economy and the affected policyholders is an important topic. The main losses that extreme weather events cause are property damage, both residential and commercial.

There are also reinsurance needs in non-property classes.

Weather events and catastrophe reinsurance

Tasmania suffers from extreme weather events, predominantly in the form of bushfire and flood, with major windstorms also featuring. Earthquake is a very low probability risk but is not to be ignored. Hail is a rather smaller risk than in many parts of the mainland.

At the individual policyholder level, there can be both an affordability problem and, for some, an availability problem regarding protection against bushfire and flood risks.

Special attention needs to be paid to bushfires and to floods. When they occur, large levels of property losses can occur. What follows below relates essentially to building and related construction assets across Tasmania.

Insurers protect themselves against major bushfire and flood events either by reinsurance or simply by funding the risks themselves as part of their Australia-wide insurance portfolio management. Either way, insurers need to allow for the uncertain and low frequency but potentially high costs of these events.

As the only private sector Tasmanian based insurer, RACT has its own reinsurance programme. All other insurers, whether they be purchasing reinsurance or self-reinsuring, will allocate catastrophe reinsurance costs to their Tasmanian portfolios to allow for the same risks as RACT.

A question for Tasmanian property owners and insurers is whether, because the bushfire risk is higher than elsewhere in Australia but overall flood is lower, earthquake is believed to be lower and the hail risk is lower, some insurers are charging more in Tasmania than they need to for this protection. It is not known from the statistical or market perspective if this is so, as each insurer makes its own arrangements and there is no simple way to obtain the data needed to do an effective analysis of their weather event exposure and pricing.

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This situation gives rise to an important question: are insurers in Tasmania including in their premiums a fair price for weather events, are they under-pricing them or are they over-pricing them? Some have suggested that property insurance prices in Tasmania are subsidising the costs of weather events elsewhere in the country.

There are two main options from a Government perspective for dealing with what one can describe as a reinsurance problem that afflicts many regions around the globe including Tasmania. They are –

- (1) Do nothing, leaving the insurers participating in the Tasmanian market to continue to 'do their own thing'.
- (2) Establish a suitably designed Tasmanian reinsurance facility or pool in which most or all insurers writing home and other property insurance in Tasmania participate. The overall aim would be to fund Tasmanian weather events predominantly from Tasmanian policyholders and insulate Tasmanian property holders from the costs of extreme weather events on the mainland.

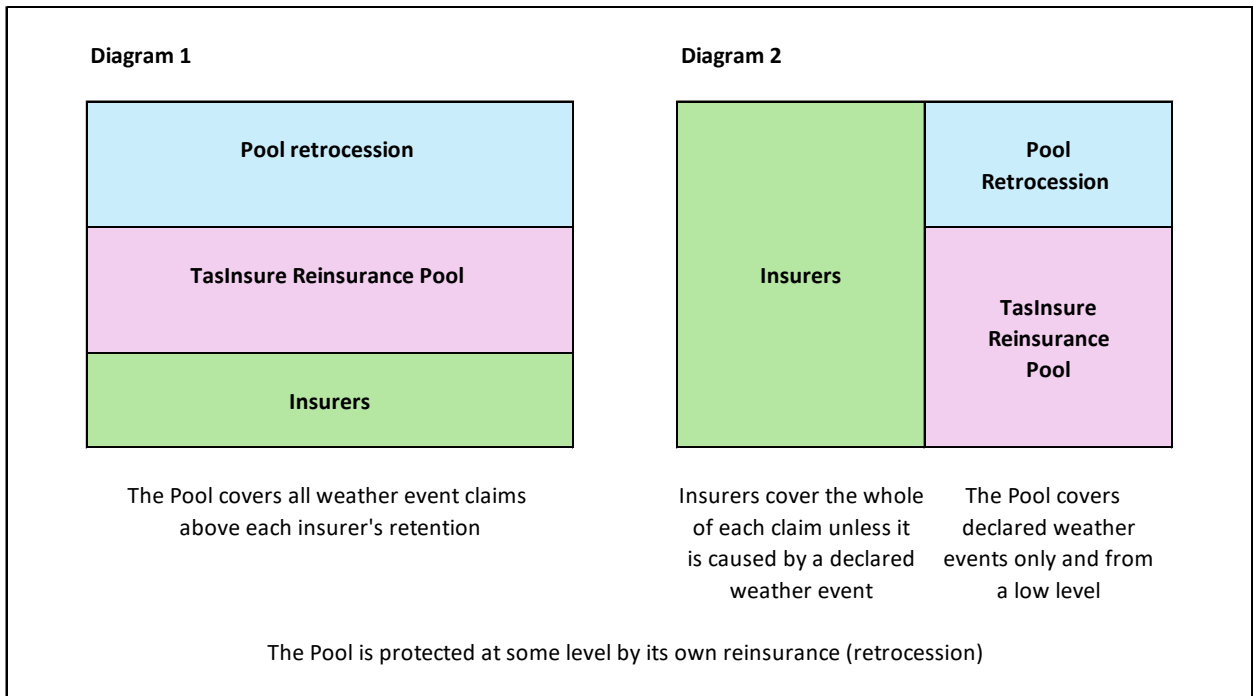
Such a facility would need to be operated by TasInsure and could be designed financially in more than one way, for example –

- On the UK's Flood Re model. Flood Re is an authorised reinsurance company and is funded mainly from an annual levy on each insurer selling home insurance in the UK. The levies are a small percentage of each insurer's home insurance premiums and the funds are accumulated to meet costs of flood claims above an agreed retention level for insurers. There are numerous details agreed with or regulated by the Government to ensure that Flood Re's objectives can be met from year to year.
- On the Australian Government's CRP (Cyclone Reinsurance Pool) model introduced by the Government in 2022 to assist with the funding of cyclone risk in northern Australia.
- On the NZ Government's Natural Hazards Commission (formerly the Earthquake Commission).

Illustration

The two diagrams below show two possible structures for a TasInsure reinsurance pool. Flood Re in the UK is an example of the first diagram and the CRP (Cyclone Reinsurance Pool) for cyclones in northern Australia is an example of the second.

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Comment

Facilities of this kind would enable RACT to share in a State-wide arrangement instead of arranging its own individual catastrophe reinsurance programme. All other insurers would participate in the same reinsurance facility and the remainder of their Australian portfolios would then exclude Tasmania from their weather event pricing arrangements.

Numerous detailed questions arise for these options including whether it is likely to reduce costs for insurers operating in Tasmania. It may do so but that is not certain. What is certain, however, is that such a facility would ensure that future weather event costs (i.e. costs of extreme weather events, mainly bushfire and flood) would be wholly met by Tasmanians and their insurers, with no share of consumer premiums being used to subsidise mainland insurance –

- Some experts believe that, with the right design, there would be a net benefit locally, others are doubtful.
- In my opinion, this proposition is worthy of proper investigation.

There are many other details to be considered for such a facility, including whether participation is optional or mandatory for insurers, how insurers would participate, as to both premiums and claims, and whether the facility would cover all events exceeding some specified limits or, like the CRP, be restricted in coverage to definitions of eligible bushfires and floods.

While the financial equation cannot be assessed without careful analysis, there are four features of a CRP style financial design that should benefit insurance and reinsurance costs in Tasmania if the

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Government were minded to go down that path. They are independent of the risk coverage options in the above diagrams. They are –

- (a) the facility would not need to be an APRA authorised reinsurer, enabling (b), (c) and (d) below
- (b) the reinsurance premiums payable by insurers would not need to include a profit margin
- (c) these premiums would not need to fund or sustain an insurer or reinsurer capital base
- (d) its claims could be guaranteed by the State Government to assist if and when a major claim occurred that exceeded the funds available, noting that the facility would build a corpus of funds accumulated from insurer premiums each year in which there is no claim (and that would be most years) and would also be able to use post-event funding as well as pre-event funding (as is required of APRA authorised insurers)¹.

A guarantee would expose the Government to some risk. That would have to be evaluated but such an exposure can itself be protected to some extent by commercial reinsurance.

None of these features (b), (c) and (d) would be permissible under APRA's normal prudential requirements but, because the affairs of the facility would be confined to Tasmania as a single State, a Tasmanian Government facility would be outside APRA's jurisdiction and would have the State Government standing behind it.

Summary and recommendation

There is a distinct possibility that a TasInsure operated catastrophe reinsurance facility or pool could be designed and implemented in a manner that would benefit the Tasmanian community and simultaneously insulate it from the effects of future severe weather events on the mainland.

On the other hand, the Government would also be taking responsibility for the reinsured costs of future bushfires and floods that occur in Tasmania. That responsibility can be mitigated by careful design, future investment in the mitigation of bushfire and flood risk across the state and by the facility or pool purchasing its own reinsurance ('retrocession') in the commercial market.

I am recommending that the Government investigate the feasibility of and requirements for establishing a TasInsure operated reinsurance pool that all insurers would use to reinsure Tasmanian weather events.

¹ If and when a claim occurs, as indicated at (d), funding the claim payments would normally extend across a period of time, perhaps one to two years depending on the nature, severity and locations of the affected properties. That would allow funding flexibility via some post-event funding which is not normally possible in a standard pre-funded corporate arrangement.

8. Insurance brokers

Background

insurance brokers play a valuable role in the insurance system, especially in commercial insurances as distinct from consumer insurances (principally home and motor).

Brokers are licensed by ASIC either with their own AFSL (Australian Financial Services Licence) or as an Authorised Representative of an AFSL holder. Most are members of NIBA (National insurance Brokers Association).

Brokers act as agents of their clients, not of insurers, and are obliged to act in the best interests of their clients. That includes testing the insurance market for policies that best meet the needs of their clients for coverage and price.

Brokers earn most or all of their income from commissions. It is a time-honoured and effective method of structuring broker income. It is simple administratively for all parties (insurer, broker, insured party). It is often questioned, however, for the obvious conflict of interest, especially as there are no regulations limiting commissions or broker fees except in workers compensation (where brokers can charge a fee to employers) and similarly for MAIB for CTP insurance.

This conflict of interest in accepting commissions can generally be managed but not without adequate disclosure and communication between broker the client, except in the case of strata insurance – see further below.

Disclosure of broker remuneration

On financial disclosures, under the Corporations Act ASIC requires brokers to disclose their remuneration (commissions, fees and any other remuneration) to retail and small business clients purchasing retail products. These products are home, motor and some less prominent products such as travel insurance. These disclosures are not required for wholesale clients (clients who are not retail for small business).

Disclosure is required under the NIBA Code of Practice to conform with the Corporations Act requirements. That the scope of these disclosures is limited, applying essentially only in the retail and small business domains, is controversial. Greater disclosure was recommended in 2021 by a review of the NIBA Code but was rejected by the NIBA Board. A more comprehensive external independent review was undertaken in 2025 recommending full disclosure. Again the NIBA Board rejected wider disclosure.

Many brokers voluntarily disclose remuneration, and many others will disclose on request by the client. It would be a modest but valuable step for the Tasmanian Government to extend broker disclosure responsibilities beyond the minimum required by ASIC and NIBA.

It is not certain that, if disclosure were mandatory for brokers engaged by Tasmanian clients, competitiveness would increase but it may and there are benefits to personal and business consumers in doing it anyway. It will improve confidence in the role of brokers, however, and there is no sound

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basis beyond broker self-interest for avoiding full disclosure. It also assists in keeping insurers and brokers open and honest on their pricing and their relationships with each other.

Insurers often impose their own limits on broker commissions but have no information on fees that brokers may charge their clients in place of or in addition to commissions.

The disclosure options

There are three main options for broker disclosure –

- (1) continue as at present and rely on the requirements of the Corporations Act only and NIBA's Code of Practice
- (2) extend the scope of disclosure of broker remuneration to all brokers for all products
- (3) ban insurer payments to brokers (commissions and fee)s, in the same manner as for workers compensation in Tasmania, thereby requiring brokers to rely on 'fee for service' agreements with their clients.

Option (1) would leave unknown and untested the level of broker competitiveness from a remuneration viewpoint. It therefore leaves open the opportunity for brokers to negotiate higher than market commissions and fees that occur in a fully open market. Higher charges can be justified in some cases but most clients are at a disadvantage through lack of familiarity and awareness about how to interact with brokers on their remuneration.

Option (2) would represent a fully open market where all insurance buyers were aware as a matter of course as to what fees and charges their brokers were applying. It would represent a relatively minor change or even no change to the current modus operandi of many brokers and would enable clients to discuss openly the conflict of interest inherent in the commission system. Clients could therefore participate as informed parties on the remuneration topic.

Option (3) would cause a major change in the commercial insurance market, perhaps for no gain or even to the detriment of the effective operation of the market. There is generally no great problem with the current system in cases where full and effective disclosure does already apply.

Some conclusions

In summary, an assessment of these alternatives could lead to the following –

Option (1) - no change:

its effectiveness is not clear because, where disclosure is required, there are no standard forms of templates on how the disclosures and communications are to be made. That could be remedied in Tasmania if believed to be worthwhile.

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Option (2) - full disclosure across the board:

Because it would require some Government initiatives to go beyond the minimum requirements of ASIC and NIBA, its implementation if undertaken could expand the effectiveness of current disclosures as well as extend its application for buyers of insurance

- Much of the potential debate about implementation of this type of initiative can be cast aside by imposing on brokers a simple obligation to include in their client documentation not only their own invoice but a copy of the invoice they have received from the insurer. This measure would show the client the insurer's premium and any commission included in the premium, together with any other fees or charges from the broker that are not part of the premium (a straightforward and effective idea but rarely carried out by brokers).

Option (3) - ban broker commissions:

To make a change of the magnitude of a commission ban on brokers would be a major market disruption. I have found no evidence of a need or a community benefit that would justify such disruption. There would need to be a case made that is different from workers compensation, which is a compulsory class of business, that demonstrated worthwhile benefits from such a change.

Conclusion and recommendation

I am advocating Option 2, that broker remuneration be disclosed by all brokers for all products and, to give effect to this recommendation, that brokers be obliged to include a copy of their insurer's quotation and subsequent invoice when presenting their quotes and own invoices to their clients.

Strata insurance and conflicts of interest for brokers and strata managers

Common practice is for brokers who accept commissions to pass most or all of their 20% commission (20% is standard) to strata managers and then to include in the insurance in their invoice to the body corporate a broker fee of between 5% and 20% of premium, yielding total intermediary charges of 25% to 40% of base premium. Both strata manager and broker are conflicted under this commission rebate/broker fee system. The solution to the problem is for strata managers not to be permitted to receive any fees or commission shares from brokers.

Market competitive total charges are 25% to 30% of gross base premium (premium including commission) but, if strata manager commission shares are eliminated, market competitive broker fee is 10% to 13% of the underwriter's base premium net of commission.

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Elimination of commission rebates would have three consequences –

- premiums would be reduced by 20% of the base premium, being the premium before stamp duty and Fire Services Levy (because underwriters would exclude commissions from the premiums)
- excessive broker fees would be visible and competition should lead to their reduction
- strata managers would be obliged to increase their charges to bodies corporate if they wished to be compensated for the loss of commission rebate (and thereby taking direct responsibility for the whole of their strata management fees).

This approach may not of itself lead to an overall cost reduction for lot owners. It would, however, mean the conflicts of interest would disappear, base premiums would be 20% lower and broker fees would be more transparent to bodies corporate and their lot owners.

Conclusion and recommendation

Conflicts of interest should be removed and that can be achieved by imposing some restrictions on both strata managers and brokers.

I am recommending that strata managers be forbidden from receiving any fees or shares of commissions from insurance brokers and that brokers operate without commissions, i.e. ask their underwriters to quote premiums net of commission when dealing with strata insurance.

9. Risk management and risk mitigation

The starting point

Alignment of interests between insurer and insured is the key to effective insurance arrangements because the role of the insurer is to accept the transfer of the policyholder's risk to the insurer. Unless the insurer is satisfied that the insured is managing its own risks responsibly and prudently, there is no incentive for the insurer to accept the risk.

There are many facets to this topic, which warrants attention in different ways for different types and categories of risk. Nevertheless, the principle applies universally and the greater the community interest in supporting effective risk management and risk mitigation, the lower will be the insurance costs and the economic costs of insured risks.

The nature of the challenge

Governments are regularly called upon by various parties (insurers, property owners and developers, other vested interests) to invest in risk mitigation and then to invest more in risk mitigation.

On a cost/benefit basis, some of these calls are worthwhile and others are not. Some are very expensive and their benefits may be very limited. This is the primary issue but there is a secondary issue: insurers are frequently accused of not recognising in their premiums the supposed benefits of risk management and risk mitigation investments made. Regrettably there are no easy answers to both questions (value of the investments and responses of insurers).

Increasing urbanisation owing to population growth and also climate change concerns have led to greater attention in recent years to risks associated with weather events and with urban, rural and other endeavours to manage and mitigate insurance and other risks.

Acting on the challenge

Individual property or business owners can undertake their own risk management but there will always be limits, whether they be cost, feasibility, regulatory barriers or external factors.

Among the submissions received during the TasInsure consultation were some substantial items of input on this subject. Some were descriptions of problems unresolved or difficult to resolve, others were constructive ideas and proposals for achieving better risk management, lower risk and greater community resilience.

Rather than summarise all of this input here, I have chosen to quote from two instructive sources within the submissions. One source is the Insurance Council of Australia's list of risk related recommendations that are part of its public submission. The other is input from RACT including an excerpt from its 2024-25 Annual report outlining initiatives that RACT has been taking on behalf of its members and the wider community.

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These quotations are -

Insurance Council of Australia

“The Council is advocating, among other things, that the government should:

- Link affordability initiatives to mitigation by investing in resilience measures such as levees, firebreaks and enhanced building standards to reduce long-term claims costs and fiscal exposure.
- Scope and fund resilience investment measures to reduce the risk of bushfire and flood, alleviating impact on the State Budget by utilising the Australian Government’s Disaster Ready Fund to co-fund investment.
- Engage with industry groups, including the insurance industry, to examine practical measures to enhance the resilience of Tasmania’s future housing stock, including considering the role of future codes and standards.
- Review land use planning arrangements to take into account current and projected extreme weather events with input from relevant councils.
- Work with other governments to update, standardise and make publicly available climate hazard data, prioritising flood, bushfire, and coastal erosion.
- Conduct a review of civil liability settings in the State with the view to modernising outdated laws and ensuring they remain fit for purpose.
- Provide grants funding for industry groups to investigate effective risk reduction and mitigation activities for businesses to lower risk and therefore premium pressure.
- Undertake targeted action to reduce the impact of mental health claims on the Workers’ Compensation scheme.”

RACT

“RACT has been giving meaningful financial and other support to Tasmanian bushfire research and community resilience pilots, aiming to reduce duplication and accelerate the impact on government priorities, applying a 100% Tasmanian lens to risk and resilience. “

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The 2025 annual report refers to –

“supporting research and actions that have long term impacts on reducing the underlying costs driving insurance prices. Over the last 18 months, we’ve collaborated with local, global, and industry experts (many based in Tasmania) to develop lasting solutions.

“Local expertise:

Our expertise in Tasmanian risk has enabled us to work with the broader insurance market, helping them become more informed about Tasmania’s unique climate and landscape. An example of this work is the analysis of the effects of Low Pressure Systems, Cold Fronts and East Coast lows on Tasmania, where we partnered with the Bureau of Meteorology’s extreme weather forecasting team to provide insurance insights supporting their analysis of extreme weather impacts. This collaboration linking weather forecasts and insurance outcomes helps make severe weather warnings more effective, not only in Tasmania but nationwide. In engaging with local experts, we are seeking to do similar work on bushfires and flood risks.

All of these points are illustrative of what is being done or what could be done to improve the risk profile and resilience of the Tasmanian community.

These and other input from the various submissions represent, as I see it, a prelude to a wide ranging and potentially valuable agenda for the Government and for many non-government interests within the Tasmanian community.

Recommendation

I can do no more in this limited report than point to this input and recommend that the Government arrange to assess, evaluate and then prioritise those initiatives that are deemed to be beneficial regarding risk management and resilience to the development in coming years of the Tasmanian community and its economy.

10. Other insurance ecosystem components

The following were all identified in the list in Section 1 of this report. They and their roles in the insurance ecosystem are described briefly in Section 2.

- insurance agents
- underwriting agencies
- claims services including loss adjusters. managers
- underwriting platforms
- comparison websites.

There is little needed to add here in the context of delivering **more favourable insurance outcomes for Tasmanians** beyond the following limited commentary, as all of these functions are essentially adjuncts in some way to the other components of the insurance ecosystem.

Insurance agents

The primary message about insurance agents is to recognise that they are agents of the insurer or underwriter. As such they do not give professional advice and their loyalty is to their underwriter not the customer.

There is a secondary point regarding brokers. There are some situations where brokers act as agents for an insurer or consortium of insurers and it occurs in some SME segments where the broker finds it convenient. When that occurs, it may not be in the best interests of the client. It is therefore incumbent on the broker to clarify that in those situations he or she is acting as agent and not broker. It is not clear to me that that relationship is always properly declared by the broker and recognised by the client.

Underwriting agencies

These agencies generally offer underwriting capacity and services not otherwise available from insurers active in Tasmania. The most prominent example is in strata insurance where almost all mainstream strata insurance is conducted through underwriting agencies. Otherwise such agencies are largely engaged by brokers to source specialist needs for commercial businesses including SMEs.

Claims services including loss adjusters

An essential function mostly conducted by or at the behest of insurers. Their effectiveness affects claims costs and ultimately then the premiums that insurers charge.

Underwriting platforms

These platforms are used extensively by brokers in dealing with SMEs. They bring regularly improving technology to broking services and are subjected to competition in their own field and in their interactions with insurers on one side and brokers on the other.

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Comparison websites

These facilities are discussed to some extent under the Home and Motor part of Section 5. They are a useful source of business for some smaller insurers writing personal lines of insurance across the country.

A full understanding of their services and operations may contribute to the design of the TasInsure comparison service advocated in Section 3 and explained in Section 5.

11. Regulated elements (MAIB, WC, SD, FSL, civil liability)

The Government already plays a significant role in the insurance sector through its fully owned CTP insurer, the MAIB, its regulatory role in workers' compensation, its imposition of stamp duty and fire services levy on policyholders and questions about the civil liability regime.

In the time available for this assessment, I have not had the opportunity to examine these five topics and their recent history in any depth but I can offer the following general observations -

MAIB/CTP

The MAIB is generally a well functioning service supporting persons injured in motor vehicle accidents on a no fault basis. It also boasts the lowest premiums of any State across the country.

These favourable features suggest there is no case for disbanding or dismembering the MAIB. Equally, there would be a risk in calling on the MAIB to expand its remit beyond CTP claims, which some submissions have advocated. That is partly because of its success generally in its own specialisation and partly because there is a case to review several aspects of its affairs and operations –

- It is over-capitalised, partly due to some excellent investment returns in some years, so its capital structure and commercial interactions with the Government could be reviewed.
- The way it presents its accounts and describes its financial results is obscure to some extent because it appears to regard all premiums as needing to deliver an 'underwriting profit' instead of attributing a portion of investment returns, being the investment returns on outstanding claims and unearned premiums, as part of its insurance profit.
- Despite its lower premiums than in other States, there are three areas that suggest its premiums could be lower –
 - the first relates to the point above about profit assessment
 - the second is that the claims experience is based on existing legislation, which has not been reviewed in 20 or more years, and as such the legislated benefit regime warrants review
 - the comparison with other States' schemes is superficial: for example, in NSW the cross subsidies between low risk and high risk geographical areas masks the substantially lower claims costs per vehicle in northern parts of Sydney from the much higher claims costs in some other areas of Sydney.

Workers' compensation

The legislation has not been reviewed in more than 20 years and several submissions have noted that average premiums derived from claims costs have led to the highest average premiums compared with the other States.

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There is also the emerging phenomenon afflicting all workers' compensation schemes across the country, which is the growing numbers of claims and their costs from mental health (psychological or psychosocial claims).

These two factors suggest that a review of the legislation and its operations is warranted.

Stamp duty

Stamp duty as it operates is a relic of the past, of more than a century across Australia. Its original purpose across the country, as I understand it, was to enable governments to fund the costs of regulating the issuing of insurance policies in a bygone era. Times have changed.

Today's problem with stamp duty is not that the Government collects it, as it has become a relevant part of the State budget, but that it is inequitable. It is paid for only by insurance policyholders and, because it is an ad valorem charge (percentage of premium), the higher an individual's premium, the higher the stamp duty and, conversely, for the uninsured there is no charge.

In my opinion, a revised system to replace today's version of stamp duty, including the basis or rationale for its collection and any replacement of it, should be investigated.

Fire Services Levy

The FSL represents a similar problem to stamp duty. It is also an anachronism because its original rationale was to fund the fire brigade so it could attend to fires at insured properties. Long ago the fire brigade attended to all fires, not just for insured properties, and today it is labelled in some States as an Emergency Services charge because of the expansion of government services beyond fires.

The other States except for NSW have all abandoned it and NSW is in the process of doing so.

I am aware that the FSL has been under review and that it, like stamp duty, is recognised as being inequitable in its current form yet the revenue it raises is important to the Government's budget.

I can only advocate that the FSL be reviewed again and modified or replaced in some way by an alternative that is more equitable and is not collected as a part of insurance premiums.

Civil liability

Several submissions called for review of the civil liability legislation.

As with CTP and workers' compensation, there has not been any review for more than 20 years and in the eyes of many it is no longer fit for the purpose for which it was designed and last reviewed.

The relevance of this legislation is most important in the 'hard to place' risk category discussed in Section 6 of this report and should be reviewed in the light of issues arising in the tourism, leisure, hospitality, live entertainment and related enterprises and also the not-for-profit sector of community and other like associations.