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Senate Standing Committees on Environment and Communications
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Australia

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**INSURANCE COUNCIL OF AUSTRALIA
SUBMISSION: RECENT TRENDS IN AND PREPAREDNESS FOR EXTREME WEATHER
EVENTS**

The Insurance Council of Australia Limited (ICA) is pleased to make this submission to the Senate Standing Committees on Environment and Communications (the Committee) regarding *recent trends in and preparedness for extreme weather events*.

About the Insurance Council

The ICA is the representative body of the general insurance industry in Australia.

ICA members represent more than 90% of total premium income written by private sector general insurers. ICA members, both insurers and reinsurers, are a significant part of the Australian financial services system and global insurance market.

The private sector insurance industry generates gross premium revenue of \$36.9 billion per annum (2012) in Australia and has assets of \$101.7 billion. The general insurance industry on average pays out \$87 million in claims to policyholders each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as professional indemnity and business interruption cover).

Background to this submission

In 2012 over \$22 Billion in claims were paid to Australian families, individuals and businesses. Many of these claims were as a result of extreme weather impacts on property and individuals.

As reported by APRA¹, a large portion of the industry's gross property claims arising from natural disaster events in 2011 were recovered from global reinsurers. APRA confirms that this has resulted in a general hardening of global reinsurance premiums when insurers sought to renew their reinsurance arrangements.

Many Australian property insurers have responded to these changes (in the reinsurance market) with premium increases and by reviewing their risk exposure. Some insurers have subsequently taken steps to reduce their exposures to high risk areas if they could not achieve necessary premium increases commensurate with the risk in those areas.

Given the stark impact that extreme weather can have on the community and a general insurance portfolio, the insurance industry has a natural focus on the impacts of extreme weather and the resilience of the built environment – an increase in the former and a failure of the latter leads to growing damage and loss for the community.

¹ Australian Prudential Regulatory Authority (APRA), Insight Publication Issues 3 of 2012, Pages 6,7.

From an insurance perspective, the need for adaptation to extreme weather conditions is not a theoretical exercise or something to be considered in a few decades time. Extreme weather events occur now and all too frequently cause damage to an increasingly brittle built environment.

In the Australian context, 19 of the 20 largest catastrophe events over the last 40 years were the result of extreme weather. It follows that the industry supports, as a general principle, any reasonable measures that improve the resilience and durability of the built environment to extreme weather.

Given the industry's history with extreme weather and focus on paying claims for subsequent damage to the community, this submission will particularly focus on 2 of the committee's lines of inquiry:

- (a) recent trends on the frequency of extreme weather events....
- (b)(iii) the availability and affordability of private insurance.....

EXECUTIVE SUMMARY

Term (a) - Recent trends in extreme weather

The committee should consider that whilst community losses due to extreme weather are increasing with time, the trend is not being determined by extreme weather becoming more frequent or intense.

The principal factors driving the increasing community cost of extreme weather are:

- **The growing number of properties** - The increasing scope of the urban footprint in Australia, more individual properties exist today than ever before, which is in turn increases the quantum of exposure to extreme weather.
- **Increasing building costs** - The increasing value of property and the mounting costs of rebuilding and repair, making damage more costly to rectify when extreme weather naturally occurs.
- **Risk inappropriate construction** - A long term failure in Australia to construct the built environment with due regard to the likely local extreme weather hazards, exposes property owners to damage during predictable extreme weather in the Australian environment.

The committee is asked to note that these factors have combined overtime to increase the number of brittle properties in Australia physically exposed to extreme weather and that are ill-equipped to withstand common forms of insurable damage.

Term (b)(iii) - Availability and affordability of private insurance

The ICA submits that insurance premiums reflect the risks to and the value of insured assets.

Both the risks² and asset values have grown and it follows that premiums have begun to grow proportionally. The increasing cost to transfer the risk of disaster from individual property owners to an insurer, should assist property owners to identify where risks are becoming intolerable and act as a driver for change.

Preserving the value of insurance as a price signal, to drive adaptation, is critical to assisting the community to identify unsustainable risk and to take steps move to a low claims built environment in the future.

² Where Risk is a function of Hazard, Exposure and Vulnerability.

The committee is requested to note measures that could assist with extreme weather preparedness and the affordability and availability of insurance, which include:

- **Creating better buildings** - Modernisation of the Building Code of Australia to include a minimum requirement for durability to extreme weather, appropriate to the region.
- **Requiring risk appropriate use of available land** - Improvements to State based land-use planning criteria to take into account local hazards when determining what may be appropriate development.
- **Creating an informed and risk aware community** – Appropriate disclosure of hazard information to the community by governments.
- **Protecting the community and lowering exposure** - Improvement of mitigation planning and funding processes
- **Encouraging personal risk mitigation** – Remove taxes currently charged to individuals who choose to become more self-reliant through the purchase of insurance cover for their assets.

INCREASING LOSSES & COSTS DUE TO EXTREME WEATHER IN AUSTRALIA – THE PRIMARY DRIVERS

This submission adopts a common interpretation of risk. *Risk* is considered to be a function of three related variables:

- the *Hazard* – measured by reference to the frequency and intensity of a peril,
- the *Exposure* – measured in terms of spatial distribution and value,
- the *Vulnerability* – measured in terms of the propensity for damage to occur to an asset as a result of the peril

ICA submits that the public debate on the likely impacts of anthropogenic climate change has until recently been dominated by a focus on the *hazard* – with variable projections regarding changes to intensity and frequency of extreme weather events.

Globally there is a growing consensus that increasing extreme weather costs are being driven by the rising exposure of wealth and population factors, rather than being dominated by an increasing hazard profile. The IPCC recently provided a special report³ on this issue that stated:

Increasing exposure of people and economic assets has been the major cause of long term increases in economic losses from weather and climate related disasters (high confidence).

This does not suggest that there is no increase in the intensity and frequency of the hazard due to anthropogenic climate change, simply that there is currently no observable signal in extreme weather loss data to support the focus given to it. Losses are changing predominantly due to increasing *exposure* and *vulnerability*.

So, with regard to Australian *hazards*, the scale and extent of extreme weather events in Australia, even those observed in 2010/11, are not increasing and are not unprecedented. Australia has a long record of fire, floods, storms and cyclones. This localised experience is

³ Special Report of the IPCC, [Managing the risks of extreme events and disasters to advance climate change adaptation](#) (SREX) (IPCC, 2012)

confirmed by studies that have examined tropical cyclone activity globally and found no long-period global or individual basin trends in the landfall of tropical cyclones⁴.

However, little meaningful dialogue has occurred in Australia regarding the long term impacts that increasing *exposure* and *vulnerability* have had on community losses and insurance affordability. Consequently, little has been done in a regulatory sense to address these two fundamental community issues, beyond the bare minimum required to preserve lives.

The ICA submits that when considering extreme weather preparedness in Australia, primary efforts should be focussed on measures aimed at reducing the brittleness of the built environment upon which the community relies. Importantly, whilst the community cannot control extreme weather *hazard*, it can exert significant power over its *exposure* and *vulnerability* through appropriate regulation and development practice.

To further illustrate the primacy of these factors using an Australian context, rather than relying upon the global context in the IPCC's SREX report, a Macquarie University examination⁵ of historical Australian catastrophe data is useful.

A raw examination of the recorded losses for extreme weather events is shown in Figure 1 below. It shows a consistent increase in the cost of extreme weather events over the last 40 years.

A simplistic interpretation of Figure 1, adopted by some stakeholders, is that as costs are increasing, extreme weather must be increasing in frequency and intensity over the 40 year review period. However, this is not the case and in order to properly understand what is driving the increasing costs in an Australian context, a more comprehensive analysis (loss normalisation) is required.

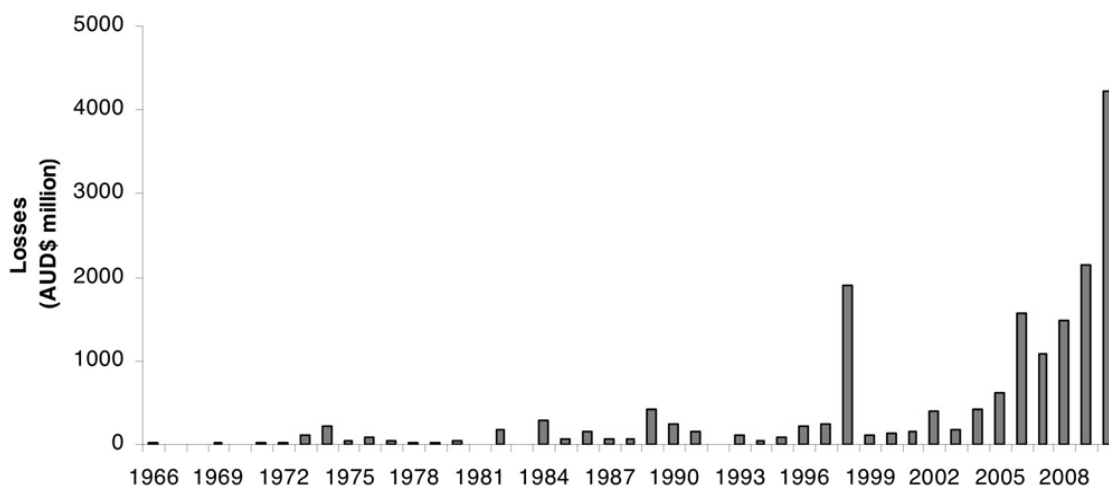


Figure 1
Insurance losses due to extreme weather events over last 40yrs
(Source: Risk Frontiers Analysis of ICA Data)

Loss normalisation is a process used often to support actuarial assumptions and to predict what losses an insurer might be required to respond to in the future. Essentially, loss normalisation can

⁴ Weinkle, J., R. Maue and R. Peilke, Jr. 2012: [Historical global tropical cyclone landfalls](#).

⁵ Crompton, R.P. 2011. [Normalising the Insurance Council of Australia Natural Disaster Event List: 1967-2011](#). Report prepared for ICA

be used to estimate the potential losses that might be sustained if previous events were to impact in the same geographic location on the present day community.

The loss normalisation undertaken here (Crompton, R.P 2011) takes into account a range of factors that have varied over the 40 year period. These variables include the number of dwellings in a location, changes to the average size and value of dwellings, changes to building age and Building Code improvements.

As described by *Crompton*, when correctly normalised for the variables mentioned above, the time series of insured losses (Figure 2) exhibits no obvious increase or decrease in catastrophe costs over the last four decades.

In other words, the increasing cost of insured losses over time is explained predominantly by growth in the number of insured buildings exposed to weather events and the nature of those buildings.

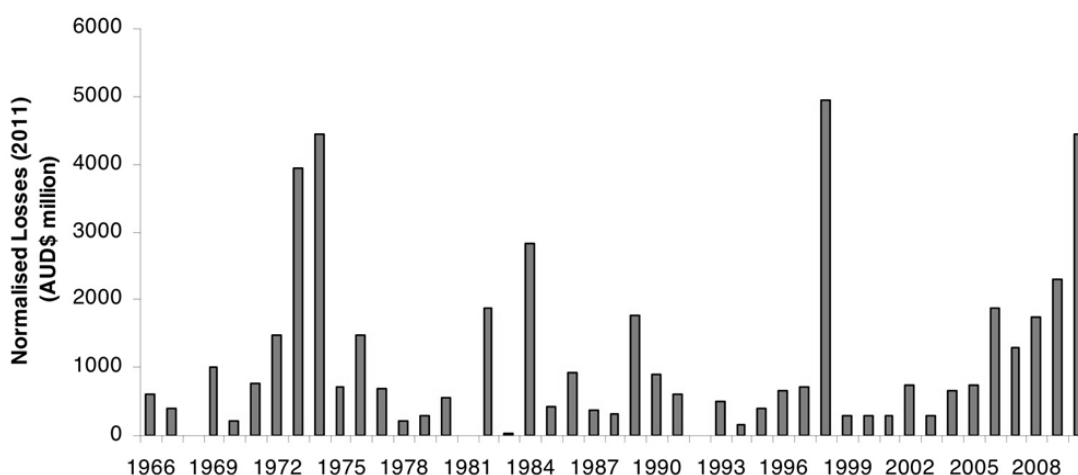


Figure 2

Normalised insurance losses due to extreme weather events over last 40yrs
(Source: Risk Frontiers Analysis of ICA Data)

That it is decision making regarding the built environment that is driving economic losses, by choosing to accept the construction of damage-prone property in hazard prone areas, is a noteworthy finding. These are factors that, unlike the prevalence of the extreme weather itself, are entirely within the governments and community's powers to change through regulation and building practice improvement.

A powerful example of the role the community plays in its own losses can be seen from an examination of total property losses in the 2009 Victorian bushfire disaster. This tragic event was caused by many factors; however a key contributor to the damage sustained was a failure to appropriately manage the development and use of land in bushfire prone areas.

In evidence presented to the Victorian Bushfire Royal Commission by Risk Frontiers, it can be seen that 25% of homes destroyed in Marysville and Kinglake were located within 1m of bushland and 60% were within 10 m. At a proximity of 10 m, the evidence shows that a building

has a 90% or higher chance of burning down in conditions such as those experienced on Black Saturday⁶.

In this example the contributing factor to the probability of loss is a community-controlled factor – proximity of construction to combustible fuel loads.

A reduction of losses, in events such as Black Saturday, and other subsequent natural disasters, is achievable by focussing on the critical factors that are within the communities capability to control. In this example, regulation could be enacted that controls the nature of construction of properties in close proximity to bush, such that the structure is resilient to fire.

The ICA submits that governments must now broaden their gaze in terms of extreme weather preparedness and address *exposure* and *vulnerability* in the built environment. A new approach is required that:

- Reduces the current and future levels of overlap between where disasters typically occur and locations that the community selects to develop with increasingly valuable property. (*exposure*).
- Actively requires the built environment to be constructed in a way that makes it resilient to extreme weather, to reduce damage and economic loss to the community. (*vulnerability*)

INSURANCE – ASSISTING RECOVERY AND SIGNALLING THE NEED FOR ADAPTATION TO EXTREME WEATHER

The general insurance industry provides financial risk offset and recovery services for Australian families, individuals and businesses – calculating the probabilities of damage, offering insurance cover⁷ and then compensation when it occurs. Importantly, private insurance mechanisms also produce a price signal or financial incentive that can motivate adaptive activity to reduce exposures.

In extreme cases those in the community who face an ‘uninsurable’ risk are forced to adapt by absorbing the risk potential within their own finances, or by undertaking risk mitigation activity – move, mitigate or modify.

The industry therefore has a natural focus on risk mitigation activity undertaken by the community, as good risk mitigation leads to more acceptable claims costs and ultimately more affordable general insurance premiums for the Australian community.

The ICA believes that the Committee’s inquiry presents another opportunity for Federal and State governments to ensure Australian families, individuals and businesses have a future built environment that is resilient and durable to weather related risks.

The alternative, a continuation of the status-quo, is that the community will continue to rely socially and economically upon a built environment that all too often proves to be vulnerable to commonly occurring extreme weather risks.

There are other regulatory issues that serve to inhibit the adaptive role insurance plays in assisting the community to recover from extreme weather events. For example, the imposition of taxes on general insurance products, to varying degrees in each State and Territory, serves as a pricing disincentive on the uptake of essential cover.

⁶ Crompton, R. P., K. J. McAneney, K. Chen, R. A. Pielke Jr., and K. Haynes, 2010a: [Influence of location, population, and climate on building damage and fatalities due to Australian bushfire: 1925-2009](#). *Wea. Climate Soc.*, 2, 300-310

⁷ For insurable events

From a general insurance perspective there are 5 areas where changes to government policy could assist the community to be better prepared for existing and future extreme weather:

1. Preserving the value of insurance as a price signal to drive adaptation.
2. Modernisation of the Building Code of Australia
3. Harmonisation of land-use planning criteria and supporting risk information
4. Improvement of mitigation planning and funding processes
5. Removal of tax impositions

PRESERVING INSURANCE MECHANISMS AS A PRICE SIGNAL TO ENCOURAGE ADAPTIVE BEHAVIOUR

The premium charged for insurance cover provides a *canary in the coalmine* indicator of the acceptability of risk. Where the built environment is exposed to high levels of risk due to poor land-use planning, inappropriate construction standards and development controls, as well as hazards that remain unmitigated, an insurance price signal can serve to motivate adaptive actions.

For example, during 2012 insurance risk and pricing for domestic properties in several extreme flood risk locations in Queensland, became unsustainable for some insurance companies. The partial withdrawal from the market of insurance capacity for Emerald and Roma during 2012 understandably raised local concerns about what was being done by government to reduce the flood risk to acceptable levels, levels that could be accepted by the community and accommodated by insurance mechanisms.

The price signal created by insurance, in this case, has served to motivate at least one local government to consider mitigation planning to reduce community exposure to a lower level of residual risk. If works are undertaken that actually lower the level of flood risk it is expected that premiums could be reduced in net terms and absent insurers could consider a return to underwriting in those locations – thus increasing the level of competitive capacity in that market.

The value of the price signal is not always recognised. Where insurance premium increases occur there can be temptation for governments to intervene and to modify or regulate price. In some international jurisdictions this has been undertaken unsuccessfully in forms such as the provision of subsidised insurance, through the capping of premium rates or by otherwise pressuring the private market to artificially retard premiums below the technically correct price – all in the interest of preserving a communities status-quo and access to ‘affordable’ insurance protection.

Such intervention historically distorts the signals provided by the insurance market and can lead to a failure to adapt to hazards. For example, should private insurance premiums for flood risks in an area become unaffordable, or cover become unavailable, government may elect, as they have in some international jurisdictions, to provide subsidisation for insurance products. Such actions can ultimately encourage further inappropriate development of flood-prone land – increasing the exposure of the community rather than assisting structural adjustment that may be more beneficial in the long term.

A useful illustration of insurance intervention encouraging deeper exposures and vulnerabilities can be found in a 1998 study⁸ of growing US natural disaster vulnerability, which found that more property is being placed in harms way. The findings of the report resonate strongly with the Australian situation, stating that:

In many ways the trends (losses) seem paradoxical. After all, most natural disasters occur in areas of known high risk such as barrier island, flood plains and fault lines. Over time, one would expect that the costs of natural disasters would create economic pressures to encourage responsible land use in such areas. The economic incentives for responsible land use have been stifled by legislated insurance rates and federal aid programs that effectively subsidize development in hazardous areas. And while there will always be great political pressure to provide economic relief after a disaster, there has been little political interest in pre-disaster mitigation.

Closer to home, the ICA draws the Committee's attention to the work carried out by the Productivity Commission during 2011/12 on barriers to climate change adaptation⁹. Whilst the final report that was delivered to government in September 2012 has not been made public, the draft report underlined the necessity of maintaining a private insurance market in Australia that is free to articulate pricing relative to risk without manipulation for social or political means.

The correct role for government in assisting the community to adapt to risk is not to lower the cost of insurance directly, but to lower the risks that the community is faced with – the ICA submits that the appropriate way for government regulation to achieve meaningful preparedness for extreme weather is to focus on reducing community *exposure* and *vulnerability*.

Governments can of course facilitate the correct pricing of risk through the provision of accurate risk mapping and data, for example flood maps. There are a cluster of benefits to this approach, beyond preserving a clear price signal about risky behaviour, including

- an informed community who will be more able to make appropriate decisions regarding the built environment - as a nation we have not been able to adequately educate home owners on managing risks in a volatile weather environment, the role and value of general insurance in transferring risk, and how the industry prices the product.
- Initiatives such as those delivered by Emergency Management Australia should receive greater resources to enhance distribution, accessibility and visibility. The OECD's 'Policy handbook on natural hazard awareness and disaster risk reduction education (2010)' advocates cross sectional collaboration and distribution of messages and materials through a wide variety of outlets, and
- encouraging the insurance market to provide more finely tuned insurance products and in some instances new products where an absence of credible risk data had previously prevented a market from growing or a product from being developed.

MODERNISATION OF THE BUILDING CODE OF AUSTRALIA

The Building Code of Australia (BCA) promotes a strong and effective building industry that carries out construction of the built environment within a framework of building principles.

⁸ Van der Vink, G., R.M.Allen, J.Chapin, M.Crooks, M. Fraley, J.Krantz, A.M.Lavinge, L.LeCuyer, E.K.MacColl, W.J. Morgan, B.Ries, E.Robinson, K.Rodriguez, M.Smith and K.Sponberg, 1998. [Why the United States is becoming more vulnerable to natural disasters](#). EOS, Transactions, American Geophysical Union, 79(44), 533-7.

⁹ Productivity Commission Inquiry: [Barriers to Effective Climate Change Adaptation](#), final report issued to government 20 September 2012

The principles of the BCA are enshrined in an Inter-Governmental Agreement (IGA) between the State and Territories. The principles include a need to meet requirements for Safety, Sustainability, Amenity and Performance.

However, unlike the building codes of some other developed nations, the BCA does not include a specific principle related to property durability.

The BCA permits the construction of buildings (to a minimum standard) that includes no element of durability (property protection), creating a stock of buildings that whilst 'safe' are increasingly brittle to extreme weather events – sustaining avoidable damage to common extreme weather events.

For example, post the 2010/11 floods the BCA has commenced development of a document describing how properties should be constructed in a flood prone area. This guideline only seeks to ensure that flood prone properties are structurally sound, to ensure that life safety can be maintained. The BCA process does not address the durability of the property. The end result will be a flood prone property that may protect the occupants, but that will still be (from an insurance perspective) economically destroyed by flood water ingress or rendered unfit for habitation.

Members of the ICA in their dealings with their clients, have identified that there are strong expectations from individual and business policyholders that existing buildings have been built to a standard that not only ensures individual life safety, but also the survivability of their most important assets, that is the building itself. Furthermore, community expectations are that building standards into the future will acclimatise to ensure that their assets are adaptively resilient to extreme weather impacts projected under climate change.

There is strong evidence supporting the principle that small changes to the design and construction of a property, can have a significant impact of the property's ability to survive extreme weather. Whilst not reducing the probability of insurable damage, changes to structural requirements for new buildings in cyclone prone areas have significantly reduced the probability of the total loss of individual buildings as a result¹⁰. Further reducing losses (non-structural) is achievable and would make insurance more affordable for those in hazard prone regions.

Overtime, insurers have proposed amendments to the BCA to address critical vulnerabilities observed in the durability of the built environment. For example, a lack of adequate fire protection in certain types of buildings. Initiatives have often been rejected on the grounds that they relate to protection of the property, which is not a goal of the BCA.

The ICA has undertaken a review of the 2006 IGA that forms the foundation for operation of the Australian Building Codes Board (ABCB).

The ICA review identified that the 2006 IGA:

- Does not explicitly prohibit consideration of fundamental property durability measures by the ABCB.
- Includes 'performance' of the building as a fundamental consideration for the ABCB in determining minimum requirements.
- Includes 'sustainability' of the building as a fundamental consideration for the ABCB in determining minimum requirements.
- Requires that the ABCB develop codes and standards that accord with the strategic priorities established by Ministers from time to time, having regard to societal needs and expectations.

¹⁰ Mason, M., Haynes, K., Walker, G. (2011) [Cyclone Tracy and the road to improved wind resistant design in: Natural disasters and adaptation to climate change](#), eds. Palutikof, J., Karoly, D., Boulter, S. Cambridge University Press (in review).

- Requires that the BCA generate net benefits for the community greater than the costs and potential regulatory impacts.

The ICA recommends that the committee consider the adaptation benefits that arise from the operation of a building code that requires property to be constructed in a durable fashion, through amendments to the IGA that:

- Defines the 'performance' of a building to include its resilience to extreme weather events and hazards anticipated under a worsening climate, in consultation with relevant scientific bodies.
- Defines 'sustainability' in the IGA to include the environmental, economic and societal sustainability of a building, including considerations of its total loss or loss of amenity on the community.
- Identifies that the reasonable protection of the built environment via the BCA is an important strategic priority that accords with societal needs and expectations.
- Reconfirm that regulatory changes considered using a more relevant definition for 'performance' and 'sustainability' (as above) still require rigorous impact analysis, but should include considerations of net benefits over the expected life-span of the building to include predicted gradual changes in the climate and extreme weather environment.

Importantly, including the concept of resilience or durability within the existing framework of 'sustainability' and 'performance' in the BCA will not only meet current community expectations, it will serve to provide a net benefit to Australia's economic strength well into the future. By establishing this as a threshold requirement in the BCA, market solutions can be expected to develop and to adapt to changing risk conditions over time.

ICA believes that regulators of the BCA could, in the interest of creating an adaptive built environment, be required to broaden their current understanding of the terms of the BCA to include life-cycle durability considerations.

In the alternative, the IGA should be amended to include a minimum performance requirement for durability of property to hazards (including extreme weather) both present and predicted over the lifespan of the property, to the extent that following a natural hazard occurring, the property remains useable for its registered purpose.

RISK APPROPRIATE LAND-USE PLANNING & SUPPORTING RISK INFORMATION

Risk appropriate use of land is a critical issue in Australia. Getting land-use planning decisions right is entirely dependent upon the development of information on current and future hazards.

ICA holds the view that in the past decade State governments have generally enhanced land-use planning guidance and regimes in various ways. In the majority of instances, State governments have issued high level parameters for local governments to include in local planning and development schemes. The high level parameters offer broad development principles for local bodies to enshrine in decisions regarding what is, or is not, an appropriate development in the local area.

The results of poor land-use planning and decisions are now, with some notable exceptions, legacy issues. There are examples across the country of historical development that has occurred in a "risk inappropriate" fashion. For example, many thousands of residential properties on Queensland's Gold Coast have been authorised and constructed in locations that place them at extreme risk of catastrophic flooding and coastal inundation. Properties flooded in the 2010/11 flood season, in both Queensland and Victoria, were for the most part known to be at high levels of risk according to flood maps. Insurance premiums to assist local residents to recover from these known risks are naturally reflective of these exposures.

There are good examples of effective and appropriate strategic land-use planning in Australia. The implementation of mandatory cyclone building controls in historic cyclone prone local government areas has seen a dramatic decrease in the damage sustained (to newer properties) from that hazard.

The predicted impacts of future extreme weather events underscore the need for a renewed focus and emphasis on risk appropriate selection of land for development. With many of the current risks predicted to increase over the accepted life-cycle of a man-made structure, it is necessary for governments to ensure that new structures are constructed in a location and manner suitable both to the risks experienced today at that location and those risks predicted at the anticipated end of life for the property.

It is possible to change land use planning so that it acknowledges and counter-acts hazards to the community. The ICA draws the Committees attention to and commends, the work undertaken by the Queensland Reconstruction Authority during 2011/12 to map flood risk in the State and to then link knowledge of the hazards to planning schemes and subsequent local government decisions for development. A difficult task that has had to traverse complex and layered development processes in the State.

Success in one State is not enough to ensure that insurance remains affordable and available to all, or more importantly that all members of the community are protected from known hazards.

The following development guidance is considered appropriate nationally:

A Minimum Standard for Riverine Flooding Risks – Modern rainfall models indicate a strong potential for a drier average climate with greater peak rainfall events. Greater peak rainfall events will lead to increased occurrences of flooding in the community as traditional floodwater mitigation and drainage systems fail to cope with larger water flows.

The potential nexus between increased sea levels and increased peak rainfall events further underscore the need for greater attention to be paid to land-use selection under a changed climate, these could include considerations such as residential or commercial development not being authorised on land that is presently subject to a flooding risk or a predicted flooding risk within the next 100yrs, without flood mitigation works or building controls incorporated into the development that reduce the risk to structures to acceptable levels

Wind Storm & Cyclones – Under some climate change scenarios, the CSIRO has predicted that cyclone activity may decrease overall by up to 44% in some areas of Australia. However, the number of extreme cyclone events (Category 3-5) under some scenarios is expected to increase. Furthermore, on the basis of some studies the average decay location of cyclones may move southwards by up to 3^o of Latitude giving rise to consideration that the geographic extent of mandatory cyclone resistant building standards described by the BCA and relevant Australian Standards should be extended to cover land-use and development further south than the present limit.

Disclosure of risk as part of the development process - The provision of risk data by government is key to achieving a lasting adaptive approach by the market and the community. For example, individual awareness of exposure to flood risk at a specific property can clearly have a powerful influence on what actions the property owner will take in order to adapt to the risk.

To ensure that specific information about flood risk (or other hazards) is available to home owners and tenants, policy changes should be made at a national level to require the proper disclosure of known risks within populated areas of Australia by local authorities.

In the example of flood risks, this could be achieved by requiring that local government rate notices include a statement of flood risk, based on a transparent categorisation of that risk.

Provision of this information in a regular and effective manner, will ensure that an appreciation of individual flood risk (in this example) is continually reinforced. This will encourage greater personal responsibility for adaptation to the risk.

MITIGATION AS INFRASTRUCTURE - APPROPRIATE MITIGATION MEASURES

In Australia the *National Disaster Resilience Program* provides an application and funding mechanism for mitigation projects aimed at reducing community exposure to natural hazards.

For approved projects the program provides 1/3rd of funding from a federal fund and typically 1/3rd funding from both the State and the affected local government respectively. Projects are prioritised intrastate by relevant State planning bodies with assistance from applicant local governments and in some cases by emergency management agencies.

Projects do not appear to be prioritised nationally, nor is there any consultation with the insurance industry who will ultimately be expected to provide affordable insurance cover for the residual risks.

Mitigation projects in the context of the program include:

- natural disaster risk management studies;
- disaster mitigation strategies;
- investment in disaster resilient public infrastructure;
- structural works to protect against damage (eg. disaster proofing of existing buildings at risk; levees, retarding basins and channel improvements, permanent fire breaks, other engineered works that offer protection from natural disasters);
- disaster warning systems;
- community awareness and readiness measures;
- audits of levees and warning systems;
- disaster and mitigation related research of public benefits;
- development of nationally consistent data collection and analysis;
- development of nationally consistent post-disaster evaluations;
- geographic Information Systems (GIS) based hazard and flood data for disaster mitigation purposes; and
- land and building purchase schemes in high-risk areas.

The current objectives of the mitigation program remain generally appropriate but its community relevance under climate change predictions will increase in direct proportion to the gravity of predicted climate change induced hazards.

There is one notable omission from the list of program objectives – stormwater mitigation and drainage works.

It is the view of the ICA that urgent consideration needs to be given to expanding the program to include projects that are aimed at replacing or upgrading critical stormwater mitigation works in communities. The failure or inadequacy of public stormwater mitigation accounts for approximately 1/3rd of water damage experienced by private property owners during large rainfall events.

Federal funding for this program has remained relatively static for the previous 3 years at approximately \$20mil per annum. Under each of the various climate change scenarios it is increasingly clear that there will be greater funding calls upon each available component of the mitigation program, in particular the more expensive classes such as resilient public infrastructure and structural mitigation works.

Further, it is conceivable that individual projects designed to combat climate change induced hazards will increase in complexity & expense in proportion to growth in demand for hazard controls and the nature of the hazards. It follows that funding will become a growing challenge that may outstrip present funding rates and the ability of some partners to the program to effectively contribute.

It is recommended that COAG urgently undertake a review of present funding levels and arrangements for the *National Disaster Mitigation Program* with a view to adapting funding levels and mechanisms to suit the nature of the increasing hazard. It is important to note that many public infrastructure and structural hazard mitigation projects take years to design and construct and therefore must be commenced well in advance of the hazard becoming a reality.

REMOVING TAXATION DISINCENTIVES TO THE UPTAKE OF INSURANCE

The level of insurance within a community and the incidence of non-insurance and underinsurance are key matters for communities in their recovery from extreme weather events. The rate of non-insurance and under-insurance will have an impact on the financial ability of communities affected by extreme weather to be resilient and to re-build.

The ICA has submitted to many previous inquiries that the imposition of taxes on insurance products exacerbates affordability issues and is a material disincentive to the purchasing of adequate insurance cover. Taxes on insurance drive a wedge between the actuarial price of risk of insurance and the cost paid by consumers. The Review of Australia's Future Tax System found that insurance taxes are amongst the worse in terms of losses to economic welfare.

Although there has been notable advances in the removal of taxes on insurance premiums (most notably the abolition of fire services levies in Victoria and the phase out of insurance stamp duties in the ACT), the ICA contends that further advances can be made by jurisdictions. In the short term, the NSW government review of fire levies offers the potential for reform. Moreover, the relative modest cost of State stamp duties at \$3.5 billion suggests that insurance tax reform has the potential to be a early and significant measure implemented from the Henry Tax Review. The ICA urges this inquiry to reaffirm that all State jurisdictions make as a priority in their tax reform program, the abolition of all State taxes on insurance products.

Yours sincerely

Robert Whelan
Executive Director & CEO