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18 January 2013

Senator Simon Birmingham
Senate Standing Committees on Environment and Communications
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: - ec.sen@aph.gov.au

Dear Senator,

Recent trends in and preparedness for extreme weather events

I refer to the Inquiry into *Recent trends in and preparedness for extreme weather events* being conducted by the Senate Standing Committees on Environment and Communications. Suncorp welcomes the opportunity to contribute to this Inquiry.

The Suncorp Group

Suncorp Group Limited and its related bodies corporate and subsidiaries (collectively 'Suncorp') offer a range of financial products and services in banking (Suncorp Bank), life insurance and superannuation (Suncorp Life) and general insurance across Australia and New Zealand. Suncorp has more than 15,000 employees and relationships with more than nine million customers.

Suncorp is the largest general insurance group in Australia and second largest in New Zealand. Suncorp Bank is Australia's leading regional bank with customer satisfaction levels greater than the big four. Suncorp Life specialises in life insurance and is a leading superannuation and investment business.

This submission is made on behalf of Suncorp's general insurance businesses.

Response to the Terms of Reference of the Inquiry

Specifically, Suncorp would like to address term of reference (b)(iii) *the availability and affordability of private insurance*. Suncorp, as Australia's largest general insurance group, has experienced firsthand the severity of events over the past decade. Thousands of customers have been supported through difficult times, with Suncorp providing insurance cover to deliver financial security, peace of mind and helped disaster-affected communities rebuild.

The general insurance industry provides a vital safety net against the financial and economic impacts of extreme weather. If weather events become more frequent and severe there will be an increasing reliance on insurance claims payments to support community and economic recovery.

To continue providing this financial safety net, the insurance industry needs to operate efficiently and effectively, and continue offering suitable products to consumers to help them manage their risk at an affordable price.

The Committee needs to note that insurance pricing is a reflection of the risk and the value of the asset being insured. Insurers take particular care in ensuring our products are appropriately priced, using risk data collected over decades from multiple sources (e.g. the National Flood Information Database) to ensure we understand the degree and type of risk to be insured.

Suncorp has identified several barriers that we believe impede the efficient and effective operation of the insurance market which, by extension, will impact Australia's ability to manage its risk appropriately. Without greater co-operation and a national focus, pressure will continue to be put on premiums in areas exposed to natural disasters.

A summary of those barriers is outlined below and are expanded on in the attached white paper, *Risky Business, Insurance and Natural Disaster Risk Management* (Risky Business). *Risky Business* makes several recommendations which Suncorp would like to highlight to the Inquiry. As an insurance premium is simply a reflection of the understood risk, risk reduction is key to ensuring a sustainable and accessible insurance industry.

Barriers to effective Risk Management

1. Understanding Risk

Taking a broad perspective of risk analysis, it would seem in many cases that the community does not truly understand the level of risks they face. This can be seen through inadequate levels of insurance amongst home owners, and incomplete disaster management plans amongst various governments.

As such, Suncorp believes that developing a clear national picture of risk will be important for all aspects of the Australian economy. It is only with an understanding of risk that individuals, businesses and governments can begin to appropriately manage those risks.

Suncorp welcomes the work of Geosciences Australia and the Attorney General's office in compiling the national flood risk information portal and looks forward to the completion of this work. However, Suncorp would like to see this risk portal expanded to other known risks, such as bushfire and storm. This will allow for a transparent understanding of risk for the local community.

2. Planning for Risk

As a basic concept, new homes and infrastructure should not be built in areas of high risk. As risk is better understood, planning laws should take into consideration this risk, and ensure that the community either does not build or builds appropriately to the risk, be it flood, wind, storm, fire, coastal inundation and the like. Suncorp recognises that work is being done in this area (most recently in Queensland), however a nationally consistent approach towards planning that is based on both current and future risks would be welcomed.

3. Building for Risk

Strengthened building codes will be an important step in mitigating the impact of extreme weather. Suncorp has identified that some local overlay building codes are more robust than others. This has resulted in some areas being better protected than others. Furthermore the limited application of building code improvements to existing homes leaves many homes exposed to otherwise preventable damage. The effective development of building codes will be an important tool through which the Government can help the community build resilience, manage risk and lower insurance premiums.

A good demonstration of the value of robust building codes is in cyclone prone areas where homes built after 1980 (and therefore subject to cyclone code requirements) generally receive a significantly lower insurance premium than pre-1980 homes, due to the reduced risk profile associated with the newer wind resistant building code.

4. *Mitigating Risk*

Risk mitigation is crucially important to managing the risks associated with extreme weather events. Community attention naturally falls upon disaster recovery following extreme weather and as a result disaster mitigation prior to disaster is often overlooked. Suncorp believes that the value of mitigating the impacts of extreme weather through activities such as flood levies, firebreaks and strengthened building codes is currently underestimated. We contend that an increased focus on mitigation works will be a fundamental step in safeguarding Australia against the effects of extreme weather into the future.

Effective mitigation will lead to lower insurance premiums for the local community where the risk is currently in existence. For example, Suncorp models show flood mitigation in Roma could lead to premium reductions of up to 70 per cent for some high risk properties. Suncorp remains concerned about the lack of funding and focus directed towards risk mitigation activities at all levels of government.

5. *Insure for Risk – Taxes*

To supplement a strengthened mitigation program, options for improving insurance uptake and operation should also be considered. State-based insurance taxes, levies and duties currently form a significant deterrent to obtaining insurance cover in all States, due to the impost on price. The current combination of an Emergency Services Levy, GST and Stamp Duty can increase the cost of insurance policies in New South Wales by more than 40%. The transition away from state-based insurance taxes to more equitable and efficient taxation systems will help support insurance affordability and therefore improve economic resilience to extreme weather events.

6. *Insure for Risk - Financial Literacy*

Ensuring an understanding of insurance products will be equally important as maintaining affordable premiums. Circumstances highlighted by the recent flood events in Queensland, suggest that the current insurance disclosure regime is not ideal. Despite the insurance industry's best efforts, there remains a general air of mystery around insurance products.

The increased provision of personal advice on general insurance products is one way to improve the public's understanding of insurance products. Despite both consumers and companies recognising the immense value that could be gained through personal advice on insurance products, the current regulatory environment prevents the commercially viable provision of personal advice by the majority of direct insurers. Regulatory reform that enables and supports the provision of personal advice for general insurance products and reduces the costs of doing so will be a vital component in promoting community understanding of insurance products.

Yours faithfully

Annabelle Butler

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