



**Australian Government**

**National Emergency Management Agency**

# **Senate Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability**

**National Emergency Management Agency Submission**

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### **Acknowledgement of Country**

In the spirit of reconciliation NEMA acknowledges the Traditional Custodians of Country throughout Australia and their connections to land, sea and the community. We pay our respects to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

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# Introduction

**The National Emergency Management Agency (NEMA) welcomes the opportunity to provide a written submission to support the *Senate Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability*.**

NEMA was established on 1 September 2022 to provide national leadership and coordination when preparing for and responding to disasters across all natural hazards. NEMA works with local communities, not for profit and volunteer organisations, and state and local governments to better prepare and support Australians during and after a disaster event. NEMA is working to ensure that Australia is more resilient to natural hazards by leading national disaster and emergency management efforts, in line with the National Disaster Risk Reduction Framework, and through informed strategic oversight and guidance.

NEMA works within the constitutional arrangements that operate within Australia for emergency management. These arrangements identify State and Territory Government as responsible for leading the operational response and recovery to major events. Individual jurisdictions are also responsible for conducting risk assessments and preparing state disaster management plans that address their particular circumstances and challenges.

Similarly, NEMA works within the policy framework that exists within the Commonwealth Government which allocates policy responsibilities in the areas of planning, building regulations and operation of the insurance market to a range of different agencies. For example, the Department of Climate Change, Energy, the Environment and Water is the lead agency driving action to address climate change and providing data and analysis on climate. Their work developing Australia's first climate risk assessment and National Adaptation Plan will help Australians understand the national level risks and impacts from climate, and will be the blueprint for responding to these climate risks. NEMA plays an important role in ensuring that these agencies factor in issues of insurance affordability and resilience in their policy analysis.

NEMA recognises the issues currently facing the insurance industry in Australia are complex. More and more Australians are facing unaffordable insurance premiums and accessibility is declining, leading to adverse recovery outcomes. Affordable insurance acts as an economic first responder, easing the financial burden to households, businesses and communities. It is estimated that the ability to reconstruct and economically recover quickly after a disaster event can have 3.5 times the impact of longer term aid payments<sup>1</sup>. Insured households are less likely to report psychological distress and more likely to report a greater perceived sense of recovery<sup>2</sup>. Those without insurance face longer recovery times, and must rely on their own savings and/or grants from governments and charities to support them.

Natural hazards such as bushfires, floods and cyclones are naturally occurring events, though their frequency and/or intensity are increasing due to climate change. The seventh biennial State of the Climate 2022 report shows that Australia is experiencing ongoing, long-term climate change, and has warmed on average by 1.47 (± 0.24) degrees since 1910<sup>3</sup>. The report found that climate change interacts with underlying

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<sup>1</sup> Sheehan, B., Mullins, M., Shannon, D., & McCullagh, O. (2023). On the benefits of insurance and disaster risk management integration for improved climate-related natural catastrophe. *Environment Systems and Decisions*, 639-648

<sup>2</sup> Eriksen, C., & de Vet, E. (2021). Untangling insurance, rebuilding, and wellbeing in bushfire recover. *Geographical Research*, 228-241.

<sup>3</sup> Bureau of Meteorology, & Commonwealth Scientific and Industrial Research Organisation. (2022). *State of the Climate 2022*. Canberra.

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natural variability, with more intense and frequent extreme weather increasing, including compound events where multiple extreme events occur together.

Other factors are also driving up the risks, costs and impacts of natural disasters over time. Australia's growing population is exposing more people and assets to natural hazards. The costs of recovering and rebuilding following a disaster are also rising rapidly, particularly as building material costs and property values increase<sup>4</sup>.

## Insurance availability and affordability challenges are complex

### Insurance premiums are increasing and consequently a growing number of households are underinsured or uninsured

The Actuaries Institute's *2023 Home Insurance Affordability Update*<sup>5</sup> found home and contents premiums have increased by 28 per cent at the median level and 46 per cent at the mean level between 2022 and 2023. This report also found that in March 2023, 12 per cent of households were experiencing home insurance affordability stress, up from 10 per cent of households in March 2022.

While affordability pressures exist across Australia, extreme home insurance affordability stress is concentrated in Northern Queensland, the Northern Rivers region of New South Wales, and North Western Australia. These regions are also characterised by high natural hazard risk. The Actuaries Institute found that exposure to hazards dominates the premiums for affordability-stressed households. Of the 23 per cent of affordability-stressed households, over half of the premiums relate to natural hazards costs, mostly from exposure to cyclones and floods.

Disaster risk is one component impacting pricing and availability of insurance policies. Other major drivers include increasing global reinsurance costs, construction and supply chain issues and the challenging global security environment. Many of these issues contribute to recovery and rebuilding costs and are likely to be permanent features of the insurance market for the foreseeable future.

## Government is addressing challenges at the intersection of hazard risk and insurance

As a key component of insurance premiums is the cost of risk, reducing disaster and hazard risk should put downwards pressure on insurance premiums. The Second National Action Plan to implement the National Disaster Risk Reduction Framework (SNAP) is Australia's guiding strategy to reduce disaster risk. The SNAP acknowledges that risks are increasing due to factors such as climate change, population growth and legacy issues with land-use planning, building codes and urbanisation. The increasing rate of natural hazards must be met with equivalent action to minimise and manage the creation of new and existing risks.

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<sup>4</sup> Deloitte Access Economic 2021, Special report: Update to the economic costs of natural disasters in Australia, available at [www.australianbusinessroundtable.com.au/our-research](http://www.australianbusinessroundtable.com.au/our-research)

<sup>5</sup> Paddam, S., Liu, C., & Philip, S. (2023). Home Insurance Affordability Update, available at [Home Insurance Affordability Update \(actuaries.asn.au\)](http://Home Insurance Affordability Update (actuaries.asn.au)).

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While the insurance sector is a private market, there are key actions that the NEMA can do to support better outcomes:

- building a shared picture of risk across different timeframes, such as the short to medium timeframe of disaster risks, as well as the longer term climate risks.
- building the evidence base for how households and communities can effectively reduce risk (so that it might result in improved insurance affordability or availability).
- coordinating and administering grant programs to reduce disaster risk with the states, territories and local governments
- coordinating some of the cross-portfolio policy challenges that are contributing to insurance affordability and availability pressures.
- bringing together relevant stakeholders, improving collaboration and facilitating better data sharing.

### **Hazards Insurance Partnership (HIP)**

In October 2022, the Australian Government allocated \$22.6 million over four years to a series of initiatives to put downward pressure on insurance premiums and better target mitigation investment to help improve insurance affordability over time. At its core was the establishment of the HIP. This forum is an opportunity for Government and the insurance sector to work together to identify the most pressing insurance issues in areas with high natural hazard risk; target and test the best policy solutions to reduce risk and insurance costs; and support better consumer outcomes via more affordable insurance and a better understanding of insurance products.

#### Partnering for collaboration and success

The HIP is a partnership between the insurance industry and Australian Government to ensure there is an agreed agenda on what collective action can be taken to address insurance affordability and availability. The HIP is key to ensuring that governments and industry better understand responsibilities between the public and private sector, and offers the opportunity to better target Government investment to reduce risk, resulting in a reduction of insurance premiums for households. Since February 2023, it has met seven times, and has established an ambitious work plan to focus efforts on a number of key initiatives.

#### Building the evidence base for household mitigation opportunities

NEMA is developing a Mitigation Measures Knowledge Base to deliver a comprehensive public collection of evidence-based risk mitigation activities for flood, cyclones and bushfires. This will ensure renters, property owners, communities and all levels of government have readily available advice on best practice mitigation measures and actions they can undertake to reduce the risk to their homes. NEMA has been working with the University of Queensland and James Cook University to deliver the underlying information on mitigation actions, based on sound research. Work will commence shortly on developing the public interface for the project. The Knowledge Base will be publicly released by the end of 2024.

#### Communicating risk reduction and mitigation opportunities for households to change behaviours

NEMA is developing a range of education and awareness materials to help households and communities understand mitigation and allow them to take action to reduce their hazard risk. The first national attitudinal research report was completed 30 April 2024 and included surveying almost 5200 households across Australia; conducting 20 in depth interviews with households from different regions; and a community focused workshop with 40 participants to inform a detailed understanding of community perceptions. NEMA will use the insights from the attitudinal research to establish a national targeted communications plan in collaboration with state and territory governments, charities, not-for-profit organisations and insurers. The first suite of support and awareness materials will be released by the end of 2024.

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#### Building a shared picture of risk and insurance coverage and pricing to inform policy and program design

The Australian Government is working with the insurance industry to create an enduring data asset of insurance affordability and underinsurance to inform targeted policy and programs. The Australian Bureau of Statistics (ABS) is developing data sharing arrangements on a bilateral basis with HIP members (Allianz, IAG, QBE, RACQ and Suncorp). The ABS tabled the collection of insurance data in both Houses of Parliament on 15 May 2024. The insurance policy data, alongside data already held by the ABS such as socio-economic, geospatial and environmental data, will form the basis of the enduring data asset. In time, additional information is expected to be added such as climate models, hazard maps and indices of risk and vulnerability. This information will enable NEMA and other government departments and agencies to more effectively target policy and programs to areas of risks.

As part of this work, a detailed map of risk and insurance cover across Australia will be developed to inform a number of key HIP initiatives. The initial priority will be focused on developing a detailed understanding of flood risk at a catchment level to support the identification of mitigation measures that can be delivered either at a household or community level.

Simultaneously, NEMA is also developing Australia's first National Natural Disaster Risk Profile to create Australia's first authoritative understanding of current national hazard risk to prioritise government mitigation efforts.

## Other NEMA programs building resilience

### Disaster Ready Fund (DRF)

On 7 September 2022, the Australian Government launched its flagship disaster resilience and risk reduction initiative – the DRF. The Australian Government committed \$1 billion to the DRF over five years (\$200m per year), from 1 July 2023 to 30 June 2028.

The DRF allows for investment in disaster mitigation infrastructure and systemic disaster risk reduction projects to address any, or multiple, natural hazards including extreme weather events and geological hazards. The DRF is a dedicated source of funding for disaster resilience and risk reduction initiatives which aim to:

- increase the understanding of natural hazard disaster impacts, as a first step towards reducing disaster impacts in the future.
- increase the resilience, adaptive capacity and/or preparedness of governments, community service organisations and affected communities to minimise the potential impact of natural hazards and avert disasters.
- reduce the exposure to risk, harm and/or severity of a natural hazard's impacts, including reducing the recovery burden for governments and vulnerable and/or affected communities.

Round One of the DRF has provided \$200 million of Australian Government investment for 187 projects in 2023-2024.

#### **Case Studies: Funding resilience under the DRF**

An example of a project funded under the DRF is the Queensland Household Resilience Program (QHRP). This program aims to assist eligible homeowners living in coastal parts of central and northern Queensland to improve the resilience of their homes against cyclones. Owner-occupiers who live in a house built before 1984 and are located within 50 kilometres of the coastline from Bundaberg to the Queensland/Northern Territory border, can apply to receive a Queensland Government grant (co funded



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by the Australian Government) covering 80 percent of the cost of improvements up to a maximum grant value of \$15,000 including GST. To date, the program has provided financial assistance to more than 4400 Queensland households. Homeowners who have had resilience works approved have reported an average insurance premium savings of 9 per cent.

A further DRF funded project is the Victorian Resilient Regions and Capable Communities project that will work with vulnerable communities across Gippsland and deliver facilitated workshops on reducing risk exposure and building community resilience. The project is underpinned by research into the role of business in disaster preparedness and recovery and will reduce risk exposure, improve recovery and economic resilience.

A full list of Round One projects is available at [www.nema.gov.au/programs/disaster-ready-fund#roundone](http://www.nema.gov.au/programs/disaster-ready-fund#roundone)

### Disaster Recovery Funding Arrangements (DRFA)

The DRFA is the primary mechanism through which the Australian Government provides financial assistance directly to the states and territories by sharing the cost of disaster relief and recovery assistance. This cost sharing arrangement alleviates the financial burden on the states and territories, and facilitates the provision of relief and recovery assistance to disaster affected communities.

#### Case Studies: Funding resilience under the DRFA

An example of a project funded under the DRFA is the Queensland Resilient Homes Fund (QRHF), which was established in May 2022. The project has received \$741m of funding from both the Queensland and Australian Governments, with the Australian Government providing 50 per cent. It was designed to support those affected by the 2022 south east Queensland floods. The QRHF supports eligible homeowners to retrofit or raise their homes so they can return to their normal lives sooner after floodwaters recede, with minimal disruption to family and finances. The QRHF allows homeowners to upgrade their homes to make them more disaster resilient, including through the use of better materials. It also allows, in some cases, the voluntary buy-back of homes, which allows residents to relocate to other areas.

On 28 October 2022, the Australian and New South Wales Governments announced the similar Resilient Homes Program to help Northern Rivers' homeowners who had been impacted by severe weather and flooding from 22 February 2022 onwards. The Fund comprised \$700m, funded on a 50:50 basis by the Australian and NSW Governments. An additional \$100m Resilient Lands Program, fully funded by NSW Government, was also announced. This program aims to relocate residents in the Northern Rivers to flood-safe land.

### Independent Review of National Natural Disaster Governance

The Australian Government recognises that Australia's disaster arrangements are complex, need to be updated to reflect this increasing complexity and growing disaster risk, and are in need of reform to better incorporate principles of resilience. Two specific reviews, the Independent Review of National Natural Disaster Governance Arrangements, commissioned by the National Emergency Management Ministers Meeting and led by Dr Robert Glasser (Glasser Review) and the Independent Review of Commonwealth

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Disaster Funding, commissioned by the Australian Government and led by Mr Andrew Colvin AO APM (Colvin Review), are particularly important inputs to Government's consideration.

The Glasser Review examined Australia's national natural disaster governance arrangements to ensure they are fit for purpose in the context of increasing disaster risk and the need to build resilience. The Colvin Review considered how the Commonwealth's investment in disaster risk reduction, preparedness, response and recovery can better support a national system that makes communities safer and builds resilience to extreme weather event. Together, along with other initiatives underway, they aim to ensure system is fit for purpose and addresses issues of resilience and a risk based approach for decision making in government. The recommendations of these reviews are currently being considered by Government and a public response will be made in due course.

### Additional initiatives

Embedding disaster risk reduction into government decision making, investing in targeted mitigation activities and resilience measures and seeing them recognised in insurance premiums, has never been more critical to a community's ability to economically and socially recover from a disaster. There are a range of Government programs and initiatives underway across portfolios to improve resilience and reduce risk, and therefore putting downward pressure on insurance affordability.

#### Case Study: The North Queensland Strata Title Resilience Pilot Program

The North Queensland Strata Title Resilience Pilot Program (Strata Program) is a targeted mitigation funding program. The Strata Program will provide \$40 million which will fund up to 50 per cent of disaster mitigation works, with the remaining funding coming from the Queensland Government (25 per cent) and Strata Title holders (25 per cent). The Strata Program will demonstrate ways to increase the resilience of strata properties and put tangible downward pressure on premiums through mitigation measures such as roof upgrades and window protection.

Decisions around building codes, land use planning and housing have profound implications for community resilience and recovery. Ensuring future homes are more resilient and better able to withstand disasters is a critical enabler of insurance affordability, as less or no damage means fewer households requiring to call on their insurance policies. This means families are safer, and there's downwards pressure on insurance premiums. In December 2022, Planning Ministers were tasked by National Cabinet to develop a national standard for considering disaster and climate risk as part of a land planning and building reform agenda. In February 2024, Planning Minister agreed that NSW would consult all jurisdictions and develop a report and timeline for the development of national principles and report back to National Cabinet by the end of 2024.

In June 2024, Building Ministers agreed to add climate resilience as an objective of the Australian Building Codes Board (ABCB). This paves the way for the ABCB to consider future standards which ensure buildings can better withstand more extreme weather. Ministers also agreed the ABCB will work with industry, government and community stakeholders to ensure that any future National Construction Code changes to improve climate resilience are cost effective, practical and fit-for-purpose.

As part of Budget 2024-25, the Government established the Insurance Affordability and Natural Hazards Risk Reduction Taskforce to develop an integrated, cross-government approach to minimising the impacts of disaster on the community and help address insurance costs driven by more frequent and intense weather events. The Taskforce will be led by the Department of Prime Minister and Cabinet in order to coordinate a whole of economy view of the issues impacting insurance affordability and solutions to reduce risk from natural hazards, and will complement the work of the Hazards Insurance Partnership.

The Australian Government created the Australian Reinsurance Pool Corporation (ARPC) in 2023, including the Cyclone Reinsurance Pool (CRP). The CRP is designed to lower insurance premiums for households and small businesses with high cyclone and related flood damage risk by reducing the cost of reinsurance.

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The ARPC included mitigation discounts for initiatives that homeowners have taken to make their property more resilient to cyclone and related flood damage in the premium formula to reflect the risk benefits of these initiatives and to promote further mitigation activity. Discounts are offered for roof replacements, roof tie downs, window protection and reinforcing garage roller doors.

Government is also creating public-private partnerships to incentivise and deliver risk reduction initiatives that can be translated into a reduction of insurance premiums. For example, the Australian Government provided a \$3 million grant to support the development of the Resilient Building Council's (RBC) Bushfire Resilience Rating home self-assessment app (the App). The App allows households to assess their home and measure how well it would perform in a bushfire event. It does this by providing households with a customised action plan, specific to their individual property and local risk.

The App launched on 23 October 2023. Since then, over 22,000 households, in around 300 local government areas, have completed a home self-assessment. Over 7,900 households have undertaken at least 3 actions recommended by the Bushfire App, and an estimated \$45.4 million has been spent on resilient home improvements. On 21 March 2024, NRMA and Suncorp Group announced that they will provide discounts to households that have gained a certified Bushfire Resilience Rating of 3 and above by completing their assessment and making the recommended changes outlined in their personalised action plan. The National Australia Bank is the first bank to recognise certified Bushfire Resilience Ratings, offering lower mortgage rates for participating customers in the Shoalhaven region.

## Role of the insurance and financial services industry

### Insurance sector should consider disaster resilience and climate change core challenges for the industry.

Disaster risk and therefore premiums are increasing in many parts of Australia. Having access to affordable insurance is an important element of a resilient society. Without insurance, people face longer recovery times and need to rely on their own savings or funding from governments or charities, to support recovery. The availability of affordable insurance is an important element in embedding resilience across all parts of the Australian community.

### Mitigation and risk reduction activities should be reflected in premiums

The Australian Government is investing in targeted mitigation measures for public infrastructure and households to reduce risk. However, in order for these measures to impact insurance premiums, the insurance industry must collaborate with government to understand, agree and articulate how this investment will be translated into downwards pressure on home insurance premiums. This will require insurers to improve transparency (to both government and households) in how they calculate insurance premiums and how they price risk. Some insurers have undertaken pilots and programs to work directly with households to reduce their risk, and have this mitigation activity reflected in their insurance premium. The industry is encouraged to expand these programs, and seek innovative business solutions to price mitigation 'discounts' into premiums.

## Conclusion

NEMA will continue to work with all sectors including state, territory, local governments, communities; and households to prepare for, respond to and recover from disasters. Reducing disaster risk is critical to supporting households and communities to be more resilient in the face of future disasters, as well as to put

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downwards pressure on insurance premiums. The Australian Government will continue to bring together relevant stakeholders and improve collaboration and data sharing through the HIP to support households and communities effectively reduce risk.

There is an opportunity for the insurance and financial services industry to bring forward meaningful market innovation to ensure that the Australian insurance sector remains fit-for-purpose in the face of a changing climate. This will be essential if the insurance sector is going to meet the increasing needs of the Australian community in response to more frequent and significant disasters.