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Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability
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Submission to the inquiry on the Impact of Climate Risk on Insurance Premiums

The Insurance Council of Australia (ICA) welcomes the opportunity to provide a submission to the Inquiry on the Impact of Climate Risk on Insurance Premiums and Availability. We also refer the committee to the ICA's extensive submission in response to the House of Representatives Standing Committee on Economics Inquiry into Insurers' Responses to 2022 Major Floods Claims, which includes a focus on insurance affordability.¹

The ICA understands the importance of all Australians having access to insurance to protect their hard-earned assets and strengthen their resilience as risk from extreme weather worsens.

The ICA is the representative body for the general insurance industry of Australia. Our members represent approximately 90 per cent of total premium income written by private sector general insurers, spanning both insurers and reinsurers. Our work with our members, consumer groups and all levels of government serves to support consumers and communities when they need it most. As a foundational component of the Australian economy the general insurance industry employs approximately 46,000 people², generates gross written premium of \$66 billion per annum, and on average pays out \$159 million in claims each working day (\$39.4 billion paid out per year).³

Our submission makes the following key points:

- Worsening extreme weather events, expansion of development in high-risk areas, growing asset values and higher inflation, particularly in the construction sector, are putting upward pressure on the affordability of insurance in Australia and across markets globally. This is widening the gap between those who can afford insurance and those who can't, particularly in areas most vulnerable to extreme weather risk.
- To address insurance affordability over the short- to medium-term, it will be critical to continue to strengthen the resilience of communities and businesses so that they can better withstand the disasters Australia is already experiencing. This includes bolstering investment in resilience-enhancing infrastructure, strengthening our building stock, and reforming land use planning to improve community safety and affordability when building new homes. After peril risk, the second biggest component of the cost of insurance premiums is taxation; the removal of state insurance taxes will also be an essential reform to provide immediate cost of living relief.
- Over the longer-term, in addition to consistent resilience investment, industry and governments need to continue to tackle the underlying driver of worsening extreme weather, climate change, by maintaining a focus on achieving net zero emissions by 2050.

¹ Insurance Council of Australia (2023) Inquiry into insurers' response to 2022 major flood claims. Submission to the Standing Committee on Economics. Accessed at: [Submissions – Parliament of Australia \(aph.gov.au\)](https://www.aph.gov.au/submissions)

² General Insurance in Australia - Market Size, Industry Analysis, Trends and Forecasts (2024-2029), <https://www.ibisworld.com/au/industry/general-insurance/526/>

³ APRA data, [APRA releases general insurance statistics for June 2023 | APRA](https://www.apra.gov.au/publications/apra-releases-general-insurance-statistics-for-june-2023), June 2023



- The insurance industry, in partnership with governments and regulators, is at the forefront of working to close the protection gap. For example, the Australian Government's Hazards Insurance Partnership (HIP), focuses on bringing industry and government together to identify the high-risk areas around the country where insurance affordability challenges are growing, and tests and targets the appropriate policy solutions. Insurers are also working with the Australian Prudential Regulation Authority (APRA) to undertake a Climate Vulnerability Assessment focused on the impacts of a warming climate on the availability of general insurance. The ICA and its members have also led key industry initiatives, including releasing an industry-wide climate change roadmap and producing new economic and actuarial analysis focused on the costs of extreme weather, uplifting Australia's building codes and standards and strengthening state and federal resilience investment.

Our submission draws on the consolidated feedback from Insurance Council members. More detail is set out below.

All policyholders are feeling the impacts of rising insurance premiums

The ICA welcomes the inclusion of affordability and availability of insurance in the terms of reference for the Inquiry. Recent premium increases in Australia are being driven by many factors, including the impact of extreme weather events, development and growing asset values in higher-risk areas, and higher inflation, particularly in the construction sector. In response to these factors, reinsurance premiums – the insurance that insurers buy on the global market – are rising.

Impact of extreme weather events

Since the Black Summer Bushfires of 2019-20 insurers have paid out \$16.8 billion in claims from 13 declared insurance catastrophes or significant events.⁴ In 2022 alone, there were more than 302,000 disaster-related claims lodged from four declared insurance events across the country, costing \$7.26 billion in insured losses.⁵ Nearly \$6 billion of these losses were from the northern New South Wales and south-east Queensland floods in early 2022. This was the costliest insured event in Australian history and, according to global reinsurer Munich Re, the second costliest insured event in the world in 2022.⁶

According to 2022 research undertaken for the ICA by the McKell Institute, direct costs from extreme weather events in Australia are estimated to grow by 5.13 per cent each year (before inflation) and reach \$35.24 billion (in 2022 dollars) by 2050.⁷

Insurance prices risk, and as risk from extreme weather worsens, so do pressures on insurance affordability in risk-exposed areas of Australia. Analysis from the Actuaries Institute finds that in 2023, more than one million Australian households experienced some form of insurance affordability stress, where affordability stress is defined as paying more than four weeks of household gross income towards annual home insurance premiums.⁸

The Actuaries Institute found that rates of insurance affordability stress, non-insurance and under-insurance are particularly significant in disadvantaged communities, concentrated in northern Queensland, northern New South Wales and northern Western Australia, reflecting the higher cyclone and flood risks in these areas.⁹ This growing 'protection gap' – the difference between the cost of recovering from an event and the insurance in place to cover that event – is impacting the insurance

⁴ Insurance Council of Australia, CAT Data, 2023

⁵ Insurance Council of Australia, Insurance Catastrophe Resilience Report 2022–23, [20897 ICA Cat-Report Print-2023_RGB_Final_Spreads.pdf \(insurancecouncil.com.au\)](#), 2023

⁶ Deloitte, The new benchmark for catastrophe preparedness in Australia, [Deloitte-CAT221-Review_Embargoed-12.01am-Tuesday-31-October_The-new-benchmark-for-catastrophe-preparedness-in-Australia_Oct-2023.pdf \(insurancecouncil.com.au\)](#), October 2023

⁷ The Cost of Extreme Weather, The McKell Institute, [The Cost of Extreme Weather - The McKell Institute](#), 2022.

⁸ Actuaries Institute, Home Insurance Affordability Update, August 2023, [Home Insurance Affordability Update \(actuaries.asn.au\)](#)

⁹ Actuaries Institute, Home Insurance Affordability Update, August 2023, [Home Insurance Affordability Update \(actuaries.asn.au\)](#)



industry not only in Australia, but globally. Analysis conducted by global reinsurer Swiss Re, found that the global protection gap reached a new high of USD \$1.8 trillion in 2022.¹⁰ Swiss Re estimates the protection gap to be USD \$12 billion in Australia.¹¹

Growing asset values in high-risk areas

Urban development and growing asset values in high-risk areas are a key driver of higher disaster losses after an extreme weather event, exacerbated by population growth. As pressure to house growing populations mounts, development in high-risk areas is increasing globally and locally. For example, a study using daily satellite imagery to estimate flood extent and population exposure for 913 large flood events from 2000-2018 has found that up to 290 million people globally were directly affected by floods, with the total population in locations with satellite-observed inundation growing by 86 million from 2000-2015.¹² This represents a 20- 24 per cent increase in the proportion of the global population exposed to floods, ten times higher than previous estimates.¹³ Australia has one of the world's highest urban populations, and development in high-risk areas like floodplains is increasing.

Higher inflation

The lasting impacts of the Covid pandemic have created a challenging economic operating environment: supply chain shortages, labour market disruptions, and unprecedented demand in the construction sector have all contributed to increasing headline inflation.

Higher inflation, particularly in the construction sector, increases the cost of repairing and rebuilding homes and is reflected in higher premiums. CoreLogic's Cordell Construction Cost Index showed that building costs rose a record 11.9 per cent in 2022, far outstripping CPI. While construction cost inflation has since significantly reduced, deflation is unlikely to occur so costs will remain elevated.

Rising global reinsurance premiums

Factors outlined above have stressed the global reinsurance industry and reinsurers have failed to earn their cost of capital in five years out of the last six.¹⁴ Reinsurers have responded accordingly by increasing reinsurance prices significantly and reducing available capacity. As a result, global reinsurance costs rose to 20-year highs last year, with Australian insurers facing cost increases of up to 30 per cent.¹⁵ Although reinsurance market conditions are expected to soften in 2025, the current rise in reinsurance costs is being passed on to policyholders.

The impact of climate change

According to Swiss Re, global insured losses from natural catastrophes exceeded \$100 billion for the fourth consecutive year in 2023. Swiss Re has said climate change is making extreme weather events such as storms, flooding and wildfire more frequent and intense, pushing up the costs for the insurance and reinsurance industry.¹³

However, the main factors driving up disaster losses are expanding development and urbanisation. The upward pressure on premiums from these factors, even before climate change impacts are fully felt, underscores the urgent need to reform land use planning, improve building standards, and implement programs such as property buybacks in vulnerable areas.

¹⁰ SwissRe, Restoring resilience: the need to reload shock-absorbing capacity, [2023-06-21-sri-sigma-restoring-resilience.pdf \(swissre.com\)](https://www.swissre.com/2023-06-21-sri-sigma-restoring-resilience.pdf), June 2023

¹¹ SwissRe, How big is the protection gap from natural catastrophes where you are?, www.swissre.com/risk-knowledge/mitigating-climate-risk/natcat-protection-gap-infographic.html#/country/Australia, July 2024

¹² Tellman B et.al (2021) Satellite imaging reveals increased proportion of population exposed to floods. Nature. <https://www.nature.com/articles/s41586-021-03695-w>

¹³ Ibid

¹⁴ S&P Global, Pricing Momentum is Helping Reinsurers Turn The Corner, [Pricing Momentum Is Helping Reinsurers Turn The Corner | S&P Global Ratings \(spglobal.com\)](https://www.spglobal.com/ratings/en/perspective/articles/2023/01/10/pricing-momentum-is-helping-reinsurers-turn-the-corner), January 2023

¹⁵ SwissRe, A perfect storm: Natural catastrophes and inflation in 2022, [Natural catastrophes and inflation in 2022: a perfect storm - Swiss Re sigma | Swiss Re](https://www.swissre.com/2023-03-01-natcat-sigma-a-perfect-storm), March 2023



In response to these challenges, the insurance industry has taken proactive steps and in 2022, the ICA launched its Climate Change Roadmap, drawing upon both global and local best practices. An [updated roadmap](#) was released in 2023.¹⁶ This roadmap outlines a framework for insurers to set net zero targets across their operations, investments, supply chains, and underwriting, with a focus on substantially reducing emissions this decade. Encouragingly, more than 85 per cent of members surveyed in 2023 have committed to overall net-zero targets by 2050 or sooner, with more than 60 per cent establishing interim milestones.

The ICA and its members are also actively supporting initiatives such as the Australian Sustainable Finance Initiative's government-supported taxonomy, while also collaborating with the Australian Government through the Hazards Insurance Partnership (HIP) to mitigate extreme weather risks. The HIP is a partnership between the insurance industry and the Australian Government to engage on issues related to hazard risk reduction and insurance affordability. A key HIP initiative has involved sharing data between Government and industry to improve understanding of affordability, under-insurance, and non-insurance issues which can inform policy and programs.

Additionally, the ICA and its members are currently working collaboratively with the Australian Prudential Regulation Authority (APRA) to design its Climate Vulnerability Assessment of the insurance sector, which will measure the potential physical and transition climate risks of climate change faced by the major insurers and highlight the value of collaboration between financial institutions and regulators to identify and manage these risks.

The ICA will continue to advocate for greater investment from governments at all levels

Insurance prices risk and the most effective way to reduce pressure on premiums and close the protection gap is to reduce or mitigate the risk of extreme weather events. This must be a continuing priority for all governments.

The ICA's [Final Report on Resilience, Durability and the National Construction Code](#)¹⁷, prepared by the Centre for Internal Economics, found that annual building related costs are estimated to be around \$2 billion per year for cyclones, \$1.475 billion per year for floods and \$486 million per year for bushfires. Reducing these costs requires action now to improve Australia's infrastructure.

The ICA and insurers have been calling for more investment in mitigation infrastructure like flood levees, changes to land use planning and building codes, and ongoing home buyback programs.

Enhancing Australia's built environment resilience requires investment in upgrading existing buildings, business assets, and infrastructure, a responsibility shared by state and federal governments. While there have already been welcome announcements such as the Federal Government's \$1 billion Disaster Ready Fund and state-funded resilience programs being rolled out across high-risk regions, more needs to be done.

The ICA and its members have outlined policy recommendations in their report, [Building Australia's Resilience](#)¹⁸, aimed at enhancing existing initiatives. These recommendations seek to build a more resilient Australia, minimising impacts when disaster strikes and safeguarding communities. We strongly recommend the adoption of these recommendations by state, territory and federal governments. The recommendations include:

- **Resilience investment:** all levels of Government should increase funding to strengthen the resilience of Australian homes and businesses, and revise what we build and where we build it. A five-year \$2 billion resilience program would be expected to save governments and

¹⁶ Boston Consulting for ICA, Climate Change Roadmap, [Climate Change Roadmap 2023 \(insurancecouncil.com.au\)](#), November 2023

¹⁷ CIE for Insurance Council of Australia, Resilience, durability and the National Construction Code, [CIE Final Report ICA Macroeconomic Analysis - 09102023 \(insurancecouncil.com.au\)](#), 2023

¹⁸ Insurance Council of Australia, [Building Australia's Resilience: Policy Recommendations \(insurancecouncil.com.au\)](#), 2023



households over \$19 billion by 2050, achieving nearly a 10-fold national return on investment. The Federal Government should extend the Disaster Ready Fund to be a permanent 10-year rolling program and index disaster mitigation funding from 2023–24 so it does not fall in real terms, as occurs under current arrangements.

- **National Construction Code and Standards:** In June 2024, Federal, State and Territory Building Ministers agreed to add climate resilience as an objective of the Australian Building Codes Board (ABCB) which paves the way for more resilient buildings in the future. The decision by Building Ministers will lead to a review of relevant standards underpinning the National Construction Code (NCC). This is critical to improving the resilience of all future building stock so they can withstand intensifying cyclones, more severe bushfires and flooding. A report from the ICA has found strengthening the NCC could save an estimated \$4 billion a year and that extreme weather costs to homeowners will double by 2050, as events become more severe or more frequent because of climate change.¹⁹
- **Review of land use planning:** All Governments must deliver on National Cabinet's commitment to ensure development no longer occurs on flood plains as soon as possible. Planning legislation should include a mandatory requirement for strategic and statutory planning arrangements to consider property and community resilience to extreme weather events. All Governments should prioritise development in areas of negligible-risk and low-risk to extreme weather for new dwellings, noting the probability of a hazard occurring and the potential impact of that hazard on property and life as part of the development of regional plans. Housing development in areas prone to extreme weather events, including high flood risk, should not be permitted.
- **Improve Data:** State and Commonwealth Governments should jointly update, standardise and make publicly available climate hazard data, focusing on flood, bushfire, cyclone and coastal erosion over long-term periods. This comprehensive data will establish a national public baseline that can better inform land use planning, building codes and standards and risk assessments. The ICA supports current efforts via the HIP and the establishment of a national expert reference group to develop this climate risk baseline for Australia.

State taxes and charges

According to research from the Actuaries Institute, the second biggest component of the cost of insurance premiums, after peril risk, is taxation.²⁰ Unfair and inefficient state taxes and charges, such as stamp duty and levies to fund emergency services, can drive up premiums by 20 to 40 per cent. All states and territories except the Australian Capital Territory charge stamp duty on insurance, increasing premiums by nine to 11 per cent. Multiple government reviews have criticised the impact of insurance taxes, including the Henry Tax Review, Thodey Review of Federal Financial Relations and ACCC Northern Australia Insurance Inquiry.

The Insurance Council welcomes the recent decision of the New South Wales to remove levies on insurance used to fund fire and emergency services. This commitment to drive change should be extended and built upon by all jurisdictions that continue to charge stamp duty on insurance through the abolition of these unfair and distorting taxes.

The Commonwealth and state and territory Treasurers, through the Council on Federal Financial Relations, should consider ways to remove stamp duty on insurance as a means to improve affordability of insurance.

¹⁹ CIE for Insurance Council of Australia, Resilience, durability and the National Construction Code, [CIE Final Report ICA Macroeconomic Analysis - 09102023 \(insurancecouncil.com.au\)](#), 2023

²⁰ Actuaries Institute, Funding for Flood Costs: Affordability, Availability and Public Policy Options, [Funding for Flood Costs: Affordability, Availability and Public Policy Options \(actuaries.asn.au\)](#) August 2023



We trust that our initial observations are of assistance and we look forward to assisting the Committee as this inquiry moves forward. If you have any questions or comments in relation to our submission please contact Ange Nichols, Senior Adviser, Climate Change:

Yours sincerely,

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CEO and Executive Director