THE SENATE FINANCE AND PUBLIC ADMINISTRATION REFERENCES COMMITTEE

INQUIRY INTO LESSONS TO BE LEARNED IN RELATION TO THE AUSTRALIAN BUSHFIRE SEASON 2019-2020

Insurance Australia Group – Questions on Notice

Q1 **Hansard p 8**	**CHAIR:** Sorry to interrupt, but the report that you've just referred to goes a long way towards dealing with increased risk, but it doesn't try to qualify the scale of premium increases? **Mr Leplastrier:** Yes, it does. It is available in the presentation material. **CHAIR:** I see. **Mr Leplastrier:** It's not actually in the report. It's in the presentation material. One of the last presentation videos, which is online, talks about how we have taken that through and what it means around Australia. One of the key highlights is that there are going to be very disproportionate impacts across the country. We've got different perils at play and different rates of change. We've got different community sensitivities to that change in peril risk. While the numbers are very rubbery because there are a lot of uncertainties and assumptions in this, that's the key theme: it is going to be a very disproportionate impact. It is going to be those high-hazard risk zones that are often going to bear the brunt of it. The issues we have today are going to be exacerbated in the future. Flood zones, bushfire zones, tropical cyclone wind areas and low-lying coastal properties are really going to bear the brunt of this stuff. **CHAIR:** Thanks for drawing our attention to the presentation; I hadn't seen that. Would you be able to provide that to the community so we can incorporate that into the material that we are considering?

ANSWER:

The presentation videos and information can be found at this link.

The second last presentation **10. Andrew Dyer, Specialist Natural Perils, IAG** has this information. https://www.iag.com.au/severe-weather-changing-climate. However presentations 8 and 9 would be of interest as they set the appropriate context for the options to shape future risk through risk reduction in the built environment.

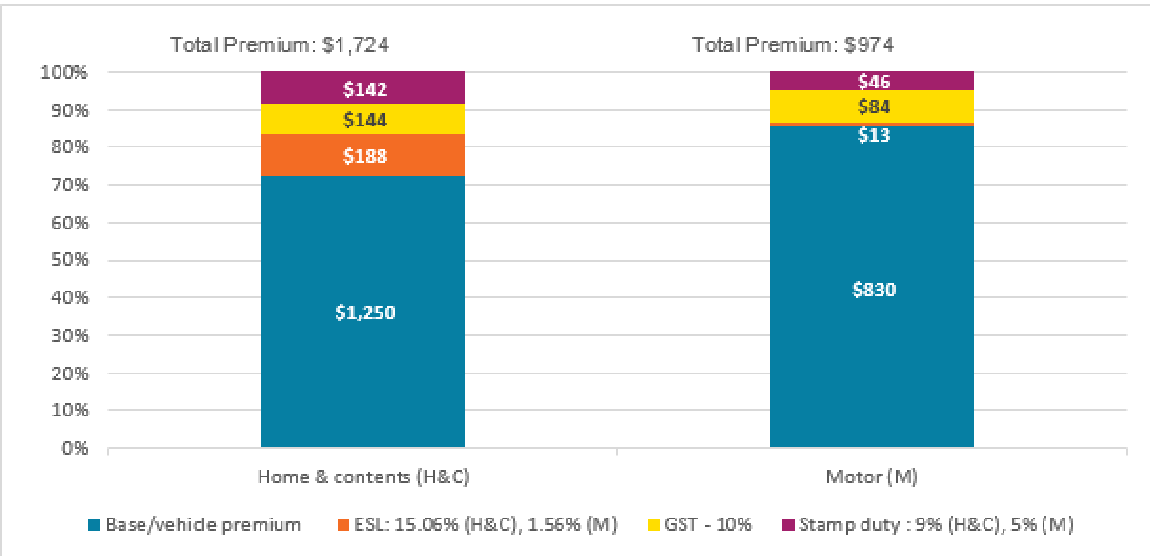
Q2 **Hansard p8**	**Senator PATERSON**: Do you have any data on adequacy of the coverage in these regions for this fire season? **Mr Gallagher**: I don't have any data with relation to non-insured. I have data which was shared around on our evidence towards underinsurance, where we believe that to some degree people were underinsured ibn the vicinity of around about 20 per cent. But I don't have data specifically around how many people are non-insured in the bushfire areas. I can take that on notice as required. **Senator PATERSON**: If you could take that on notice, that would be helpful, thank

ANSWER: provided in a second attachment marked confidential

Q3 **Hansard p11**	**CHAIR**: I want to come to some of the mitigation issues but, firstly, on this taxes and duties question, you're not the only industry group to come before a Senate committee and argue for lower charges and taxes from the Commonwealth and states. What work have you done on the amount? How much revenue would be foregone if your proposals were adopted for the Commonwealth and states? The emergency services levy in New South Wales funds a substantial proportion of emergency services. What have you to say about the amount of revenue that would be foregone and where do you say that revenue will be recovered? **Mr Miller**: I think, in terms of New South Wales and the ESL, like other states it will be a change in the way it's taxed rather than a reduction in taxation revenues. The key thing with ESL is it's levied on top of the risk-based pricing already, so it's around equity, in terms of people who live in high-risk areas, them paying more in the tax. I guess that's one thing that prohibits affordability. Also, the economic reality of areas that are higher risk are usually outside metropolitan and regional areas, and there's an overlay there as well. So, it's around how you levy that tax base in a way that's more equitable and eliminates underinsurance. I think that's the issue there. In terms of GST and the stamp duty, I don't have any numbers to hand, Chair, that I could share with you on those two items. **CHAIR**: Would each of you be in a position, on notice, to provide that material to us, the overall amount?

ANSWER:
State insurance taxes in NSW represent a significant portion of the cost of home, strata and car insurance premiums. The following is a graphical representation of the example home & contents and motor insurance policies highlighting the impact of insurance taxes on insurance premiums

Premium components by category



Source: NSWESL Monitor https://www.eslinsurancemonitor.nsw.gov.au/understanding-your-premium

Q4 Hansard p14	**CHAIR**: While we're waiting for Senator Scarr, I might go to a couple of other questions. The Insurance Council of Australia lists the eight catastrophes that occurred between December 2018 and now and says there are claims totalling just under $8 billion—$5 billion of those claims have been made this year. What was the last time there were eight events of this scale in an 18-month period? **Mr Leplastrier**: I don't have the exact numbers with me, but I imagine it was the end of 2010 and beginning of 2011, when we had significant impacts from floods and Cyclone Yasi. I imagine that would have been similar. **CHAIR:** Similar in scale? **Mr Leplastrier**: Yes. Different impacts, but similar in scale from industry dollar losses. We can come back to you on those exact numbers.

ANSWER:

The insurance council of Australia collects catastrophe related claims data from the Australian market as part of its role supporting the industry. The database commenced in 1967 and records insurance loss estimates for declared insurance catastrophe events. The database also contains normalised loss figures (current to 2017) for each event representing the potential value of the loss if it were to reoccur today.

This data and information is publicly available and can be found online here https://www.icadataglobe.com/access-catastrophe-data

According this this information. The current five most expensive events in Australia since 1967 in normalised dollars are;

1. Sydney hailstorm (1999) - $5.6 billion
2. Cyclone Tracy (1974)- $5.1billion
3. Newcastle Earthquake (1989) - $4.3Billion
4. Brisbane Flooding (1974) - $3.2 Billion
5. Bushfires (2019-2020) - $2.4 Billion

NOTE: Tropical Cyclones Dinah and Elaine in 1967, by some measures are considered to have high normalised loss values. However, given the age and gaps in the data they ICA has left them off the list.

In terms of a period of multiple catastrophes, the data from the ICA data globe for **January 2010 – June 2011** shows this is an exceptionally devastating and costly time for natural disasters. In this period there were **10 catastrophe events which equalled approximately $7.7 Billion** as evidenced in the data below.

INSURANCE COUNCIL OF AUSTRALIA – DATAGLOBE

TYPE	YEAR	TITLE	STATE	NORMALISED LOSS VALUE (2017)
Catastrophe Data	28/02/2010	West QLD Flooding	QLD	$53,261,856
Catastrophe Data	06/03/2010	Melbourne Storm	VIC	$1,625,980,165
Catastrophe Data	22/03/2010	Perth Storm	WA	$1,344,798,983
Catastrophe Data	24/12/2010	Cyclone TASHA	QLD	$427,751,031
Catastrophe Data	10/01/2011	Lockyer Valley Flooding	QLD	$304,675,232
Catastrophe Data	14/01/2011	Brisbane Flooding	QLD	$1,527,316,352

Catastrophe Data	12/01/2011	Rural Victoria Flooding	VIC	$183,366,911
Catastrophe Data	01/02/2011	Cyclone Yasi	QLD	$1,478,641,606
Catastrophe Data	04/02/2011	Melbourne Severe Storm	VIC	$712,333,752
Catastrophe Data	05/02/2011	WA Bushfires	WA	$43,015,277
				$7,701,141,165

Data downloaded from data globe https://www.icadataglobe.com/metadata-search in August 2020

Similarly, a background paper released by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry on 12 June 2018 highlights two periods of costly catastrophes

- **Jan 2015 - Jan 2016** – Over this 12 month period there were **ten catastrophe events that equalled $3.7 billion** (p17-19 Insurance Council of Australia – declared catastrophes) https://financialservices.royalcommission.gov.au/publications/Documents/catastrophes-and-natural-disasters-background-paper-15.PDF
- **February 2017 – December 2017** – Over this 11-month period there were **four catastrophe events that equalled $2.2billion**, one of which was Cyclone Debbie which equalled $1.6Billion of insurance losses. (p17-19 Insurance Council of Australia – declared catastrophes) https://financialservices.royalcommission.gov.au/publications/Documents/catastrophes-and-natural-disasters-background-paper-15.PDF

Q5 **Hansard**	**CHAIR**: APRA has written to all of you to advise it's going to begin climate change financial risk vulnerability assessments. Can each of you take me quickly to what vulnerabilities APRA is looking for? I might start with Suncorp. Mr Miller: I will have to take that question on notice. I'm sorry, I'm not over that work. **CHAIR**: Are any of you in a position to deal with the risks that APRA's trying to assess in this program? **Mr Gallagher**: Chair, we at IAG will take that on notice as well. **CHAIR**: Would each of you be able to take that on notice for me?

ANSWER:

<u>QUESTION:</u> APRA has written to all of you to advise it's going to begin climate change financial risk vulnerability assessments. Can each of you take me quickly to what vulnerabilities APRA is looking for?

APRA sent a letter to all regulated entities on 24 February 2020. This letter can be found here. https://www.apra.gov.au/sites/default/files/2020-02/Understanding%20and%20managing%20the%20financial%20risks%20of%20climate%20change.pdf

In this letter APRA advises '*the vulnerability assessment will involve entities estimating the potential physical impacts of a changing climate, including extreme weather events, on their balance sheet, as well as the risks that may arise from the global transition to a low-carbon economy.'* According to the letter, these assessments will be designed in 2020 and executed in 2021.

In January 2020 APRA published their supervision priorities advising their plan to test financial organisations resilience to broader stress scenarios including from operational and climate change financial risks. In this document APRA advise '*As part of APRA's actions to both uplift stress testing capability and strengthen the financial sector's understanding and management of climate change financial risks, a key supervisory initiative for 2020 is to develop a climate change stress test… This stress test will enable a better understanding of the overall financial system's resilience to climate-related risks. APRA is collaborating with the Reserve Bank of Australia and Australian Securities and Investment Commission on the design of the stress test.'*

This activity has not yet started and has been deferred due to COVID-19 (along with APRA's other supervision and policy priorities). The assessment itself hasn't been designed yet and APRA's initial focus is on authorised deposit-taking institutions (ADIs) with no set timing for general insurance.

<u>QUESTION:</u> Is IAG in a position to deal with the risks APRA is trying to assess?

Yes, IAG has in place a number of mechanisms to understand our climate change risks and resilience to them. We believe we are in a strong position to stress test our understanding and management of these risks. These mechanisms include;

1. **Governance of climate change** - IAG's Board Charter includes oversight of climate change, sustainability and our safer communities' program of work. In accordance with the Board Charter, the Board delegates overall management and profit performance of IAG, including all day-to-day operations and administration of IAG to the CEO.
2. **Climate Action Plan** - At IAG, climate risks and opportunities are managed through our Climate Action Plan. The CEO and relevant Group Executives have been given accountability

for actions within the climate action plan. A key component of our action plan is to understand and manage risks from climate change and this is supported by our Climate Risks & Opportunities Program. This program is focused on:

- better understanding the short, medium- and long-term risks and opportunities of climate change to IAG;
- integrating insights from the Climate Risks and Opportunities Program into IAG's strategy, risk management (including through the Enterprise Risk Profile) and planning; and
- supporting investor and market confidence through meaningful climate related financial disclosure.

3. **Scenario planning** - IAG developed four plausible scenarios in FY19 to better understand the most significant likely impacts of climate change and related physical, transition and liability risks and opportunities to IAG's Australian business by 2030. Each of the four IAG 2030 +2°C climate scenarios provide different experiences for futures based on rapid climate change and external factors of trust, inequality and regulation. These "2030 +2°C Climate Scenarios" utilised IAG's own climate physical modelling and were developed through a series of cross-functional workshops.
4. **Research on physical risks:** On 1 November 2019, IAG released, "Severe Weather in a Changing Climate", a scientific report co-authored with the US National Centre for Atmospheric Research (NCAR). The report includes the latest scientific knowledge on how climate change could impact future extreme weather events – like tropical cyclones, hailstorms, bushfires and rainfall – based on a range of warming global temperature scenarios. This report was then used to adjust IAG natural peril models to estimate potential future impacts. An updated report is scheduled to be released in September 2020.
5. **Research on transition risks:** IAG commissioned EY and Climate Works Australia to undertake a Climate Transition Impact Analysis to understand implications for its business associated with societal transitioning to climate change. This assessment utilised three scenarios for IAG's Australian business and two scenarios for its New Zealand business that were consistent with projections for limiting long-term global warming, in alignment with the Paris Agreement, by 2030 and 2050. The analysis focused on transition impacts to IAG premiums from business underwriting, technologies associated with IAG's Home and Motor portfolio and regional supply chain implications from anticipated regulation of carbon.

Through our scenarios and physical and transition risk research, IAG's current understanding is that physical risks present the most material short, medium and long-term risk to IAG's business. Transition risks provide less material medium-term risks and opportunities to product, customer and investment portfolios. IAG has assessed and developed controls and action plans that manage climate change risks across our business value chain, including in:

- Reinsurance and capital
- Product and service pricing
- Customer segments and affordability
- Claims and Insurance Supply Chain
- Investments

The projected impacts of key physical and transition risks and opportunities on IAG's business areas are summarised in Table 2 and Table 3 of our 2020 Climate-related Disclosure which will be released on Friday 7 August. A copy of this disclosure can be shared with you or downloaded from www.iag.com.au. IAG's 2020 Climate-related Disclosure is aligned with the recommendations of the Taskforce for Climate Related Disclosures (TCFD).

Q6 **Hansard p17**	**Senator SCARR:** …When you're looking at the different regions that have been impacted by bushfires, to what extent can you practically drill down to individual properties and make assessments without having access to that BAL data? In the absence of that, how do you drill down to a particular region which can be quite different? How can you practically drill down to those regions and assess risk without having access to those BAL ratings? **Mr Ly:** At this stage we can drill down to a bushfire zone level, which can be a bit generalised. That is why we endorse making the BAL rating more transparent and more— **Senator SCARR:** Sorry to interrupt, but I have limited time. How big would those bushfire zones be, practically? What sort of area would they cover? **Mr Ly:** I don't have that information on me. **Senator SCARR:** Is it possible for you to take that on notice? I will put that question to all of you. One of the issues that has been raised with me is a concern that the process is somewhat opaque from the point of view of the customer. We've raised and ventilated the BAL—bushfire attack level—issue, and I think it's really good that we've got a lot of good evidence with respect to that. But I'm interested to know, in the absence of that data being freely available to you, at what level you are making these decisions in terms of bushfire zones. How big are the areas that you're looking at—or to what extent can you drill down to street by street or property by property? Is it possible for you to take that on notice and provide some further commentary? I think it would be useful for me as a senator, in progressing the bushfire attack level information dissemination, to know what information you can currently use to make those assessments.

ANSWER:
From a technical pricing perspective, IAG can assess the bushfire risk at an address level but note that some of our pricing systems are limited to a coarser geographic area such as postcode. The technical pricing modelling is based mostly on distance to vegetation as the main risk driver. Risk Frontiers has done work using post event damage surveys, this shows that the bushfire risk quickly tapers off at distances beyond several hundred metres from dense forest. More information on this can be found in the Risk Frontiers submission to the Royal Commission into National Natural Disaster Arrangements available online here
https://naturaldisaster.royalcommission.gov.au/system/files/submission/NND.001.01255.pdf

At a high level, our internal bushfire model and a licensed model shows that approximately 25% of addresses in NSW and QLD (slightly less for Vic, SA and WA, more for Tas) have some bushfire risk but this percentage drops off dramatically for properties with significant bush fire risk.

Unfortunately, to our knowledge, the state-based bushfire prone land mapping or BAL ratings are not used in these models. The BAL ratings are not available for individual properties and if they were, insurers would struggle with using them in risk assessment and pricing as it is not clear and perhaps not their intention to directly relate different BAL ratings to financial risk.

The bushfire prone land mapping is problematic to use and doesn't have much risk differentiation within the zone across all states. They suffer from inconsistent formats and unclear methodologies and base data sets.

Insurance pricing reflects the financial risk and the financial risk needs to be considered in land planning and building codes. There is a role for a nationally coordinated approach to bushfire risk modelling that considers both life and financial aspects and to have these methodologies and hazard datasets accessible and consistent.