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Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Via email: economics.sen@aph.gov.au

Submission to the inquiry into improving consumer experiences, choice, and outcomes in Australia's retirement system

The Insurance Council of Australia (ICA) welcomes the opportunity to provide a submission to the inquiry into improving consumer experiences, choice, and outcomes in Australia's retirement system.

The ICA understands the importance of retirees having access to insurance that is both affordable and appropriate for their individual circumstances, to protect their hard-earned assets and overall well-being as they enjoy their later years.

Introduction

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.

The general insurance industry employs approximately 60,000 people, generates gross written premium of \$69.1 billion per annum and on average pays out \$159 million in claims each working day (\$39.4 billion per year).

For the benefit of the Committee, it is worth noting that the Council of Australian Life Insurers (CALI) represents the life insurance industry, offering products for retirement, death, injury, or illness; and the Financial Services Council (FSC) represents funds management businesses, superannuation funds, and financial advice licensees.

As such, the ICA suggests directing queries regarding annuity products for aged care to CALI; and that any questions about insurance in superannuation and funding aged care costs, as well as data from the Australian Financial Complaints Authority on accessing insurance payouts and death benefits via superannuation, be directed to CALI or the FSC.

Insurance is an essential safety net for those in the Australian retirement system

The ICA acknowledges that the Australian retirement income system aims to provide a mix of public and private support to ensure that retirees have adequate income during their later years.

Financial security and independence are crucial for retirees, to ensure a comfortable lifestyle, cover essential expenses, and support individual choices.



Insurance plays a crucial role in safeguarding retirees' financial stability by providing protection against unforeseen events that could impact retirement plans. Whether it's covering unexpected property damage, or travel claims, insurance ensures retirees have a safety net in place to mitigate potential financial risks.

All policyholders, including retirees, are feeling the impacts of rising insurance premiums

Wherever you live in Australia – whether you're directly exposed to extreme weather impacts or not – premium prices are rising because of the escalating costs of natural disasters, the growing value of our assets making them more costly to replace, inflation driving up building and vehicle repair costs, and the increasing cost of capital for insurers.

Since the Black Summer Bushfires of 2019-20 insurers have paid out \$16 billion in claims from 13 declared insurance catastrophes or significant events, events that are still having an impact on the price of premiums for every Australian insurance customer.

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.

Insurance prices risk, and as risk from extreme weather worsens, so do pressures on insurance affordability in risk-exposed areas of Australia.

According to 2022 research undertaken for the ICA by the McKell Institute, direct costs from extreme weather events are estimated to grow by 5.13 per cent each year (before inflation) and reach \$35.24 billion (in 2022 dollars) by 2050.

The impact of climate change

Analysis conducted by global reinsurers, including Swiss Re and Gallagher Re, indicates that while climate change and escalating disaster intensity pose significant threats, they have yet to emerge as primary drivers of increased disaster costs and premiums.

Instead, the predominant factors driving these escalations remain the expansion of development and urbanisation. That these factors are creating upward pressure on premiums before the impacts of climate change are fully felt underscores the pressing need for immediate action to reform land use planning, improve building standards, and implement programs such as property buybacks in vulnerable areas.

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.

This roadmap outlines a framework for insurers to substantially reduce greenhouse gas emissions, with specific targets aiming for net-zero emissions in their operations by 2030 and a broader net-zero goal across investments, supply chains, and underwriting by 2050. 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.

Moreover, the ICA is 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 to mitigate extreme weather risks. Additionally, a



partnership with the Australian Prudential Regulation Authority (APRA) has commenced to conduct a Climate Vulnerability Assessment.

Looking ahead, the insurability landscape is likely to face further challenges if adequate resilience and mitigation measures are not implemented. Some regions may become increasingly difficult to insure at affordable rates as extreme weather risks increase.

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

Affordability and availability of insurance is a critical issue for Australia's economy and while there's no one silver bullet, a key lever to address this challenge is reducing or mitigating the risk that is present.

Addressing the risk of extreme weather events in particular should be a continuing priority for all governments to keep people out of harm's way, close the protection gap – the difference between the cost of recovering from an event and the insurance in place to cover that event – and reduce pressure on premiums.

The ICA and insurers have been calling for more investment in mitigation infrastructure like flood levees, changes to land use planning and building codes, ongoing home buyback programs, and the removal of state insurance taxes which add 10 to 40 per cent to the cost of a premium.

You can read more about our advocacy positions in our submission to the Australian Government's 2024-25 Budget process [here](#).

The ICA looks forward to assisting the Committee as this inquiry moves forward.

Regards

Andrew Hall

CEO & Executive Director