Insurance Council of Australia

12 August 2022

Committee Secretary
Senate Standing Committees on Environment and Communications
PO Box 6100
Parliament House
Canberra ACT 2600

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

Dear Committee,

Inquiry into the Climate Change Bill 2022 and the Climate Change (Consequential Amendments) Bill 2022

The Insurance Council of Australia[1] welcomes the opportunity to contribute to the inquiry into the Climate Change Bill 2022 and the Climate Change (Consequential Amendments) Bill 2022 (*The Bills)*.

For insurers to continue to provide insurance coverage at affordable pricing, action is required to strengthen the resilience of our homes, businesses, and communities, shift our approach to what we build and where we build it and see Australia's economy transition to net zero. As a result, the Insurance Council welcomes strong government policy that will effectively and swiftly reduce Australia's emissions, including the Bills, which seek to implement a range of measures including enshrining the 2030 emissions reduction target and tasking the Climate Change Authority with providing guidance on future emissions reduction targets and Nationally Determined Contributions (NDCs) under the Paris Agreement.

Tackling climate change is a national challenge and all levels of government need to play their part, as do all sectors of the economy, including insurers. Reinsurers, investors, financial disclosure standards, regulators and customers are increasingly expecting insurers to play a role in the transition to net zero, to improve transparency around insurance-associated emissions and demonstrate insurers understand and are managing climate risk.

This submission provides an overview of the costs of extreme weather events, the scale of investment and policy change needed to improve the resilience of Australia's infrastructure, and the need for government policy to effectively reduce emissions to limit growing climate risk.

The growing costs of extreme weather

Climate change is driving an increase in the frequency and severity of extreme weather events, with implications for the affordability and availability of insurance in Australia.

[1]The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 95% of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 60,000 people, generates gross written premium of $59.2 billion per annum and on average pays out $148.7 million in claims each working day ($38.8 billion per year).

Since the start of 2021, the Insurance Council has declared seven insurance catastrophes including floods, cyclones and bushfires that have collectively incurred over $7.48 billion in insured costs (as of 1 August 2022). The extreme flooding in Queensland and New South Wales this year has led to 230,000 claims and $5.13 billion in insured costs. This makes it the second most expensive catastrophe in Australian history, surpassing Cyclone Tracy in 1974. Other analysis, such as an independent Deloitte Report into this year's South East Queensland floods, has revealed an estimated total cost of $7.7 billion to Queensland, including consideration of the social, financial and economic costs of the 2022 South East Queensland Rainfall and Flooding Event across 23 local government areas.[2]

Other extreme weather events in 2021 included the severe storms in Victoria and South Australia ($839m), Tropical Cyclone Seroja in Western Australia ($368m), severe weather and flooding in Victoria ($310m), the Perth Hills bushfire ($99m) and intense rainfall in NSW and south-east Queensland ($618m). The Mansfield earthquake also incurred $111m in costs.

As evidenced through the ACCC Northern Australia Insurance Inquiry[3], the impact of extreme weather is particularly pronounced in Northern Australia, where the increasing scale and frequency of claims due to cyclones and flood raising costs have rendered the insurance market unprofitable over a long period of time. These affordability challenges have been further amplified by scarce capital globally, challenges with obtaining reinsurance, and growing inflationary pressures from building supply constraints and skills shortages.

The cost of worsening extreme weather events is projected to continue to rise. CSIRO's once-in-a-decade report 'Our Future World' found the cost of extreme weather events is expected to triple over the next 30 years due to climate change.[4]

The Insurance Council has commissioned research to further examine the challenges posed by three key extreme weather events including;

- **Coastal hazard analysis.** Australia has a very high vulnerability to coastal hazards, leaving Australian communities, properties and critical infrastructure increasingly vulnerable. Insurance coverage is limited in these areas due to the growing risks, creating a protection gap. The Insurance Council commissioned Baird Australia to identify key issues and associated recommendations that would improve Australia's resilience against coastal hazards in the context of rising sea levels. It is estimated that Australia will require at least $30 billion (net present cost) of investment in large-scale coastal protection and adaptation projects over the next 50 years. Adaptive management and retreat schemes should be piloted, with lessons learnt used to make amendments to land use planning controls to enable retreat as a viable option.[5]
- **Cyclone hazard analysis.** The Insurance Council commissioned research by the James Cook University Cyclone Testing Station in association with Risk Frontiers[6], to identify key issues affecting modern housing during tropical cyclone events. The study leveraged industry-wide policy and claim data from recent impacts in North Queensland and made recommendations that would improve the resilience of Australian homes against tropical cyclones now and in a changing climate. Examples of recommendations from this analysis included that federal and state governments should establish long term funding mechanisms for tropical cyclone household resilience priorities. The insurance industry recommends that

[2] Deloitte Access Economics Report - The social, financial and economic costs of the 2022 South East Queensland Rainfall and Flooding Event | Queensland Reconstruction Authority (qra.qld.gov.au)
[3] Final report | ACCC
[4] Our Future World - CSIRO
[5] Actions of the Sea – ICA: https://insurancecouncil.com.au/wp-content/uploads/2021/11/2021Oct_Actions-of-the-sea_Final.pdf
[6] Climate Change Impact Series: Tropical Cyclones and Future Risks (insurancecouncil.com.au)

household resilience schemes such as the North Queensland Household Resilience Program should be continued, and that future schemes should be further refined and targeted to specific periods of construction (e.g. post 1980, 1980-2000, 2000 onwards). The value of targeted resilience retrofitting (e.g. rated glazing for water ingress) can be evidenced by insurers as this area of research evolves, thus ensuring optimal outcomes for public expenditure. Resilience programs can also help to reduce premiums; for example the North Queensland household resilience program contributed to an average 7.8 per cent insurance premium saving.[7]

- **Flooding analysis.** The Insurance Council commissioned research by the James Cook University Cyclone Testing Station in association with Risk Frontiers, to identify key issues affecting modern (post-2000) housing during flooding.[8] The study leveraged deidentified industry-wide policy and claims data covering 90,003 flood claims from four recent flood events and made recommendations that would improve the resilience of Australian homes against flooding now and in a changing climate. Examples of recommendations from this analysis included that new developments should adhere to existing provisions in the floodplain handbook and consider the consequence and likelihood of the full range of possible flood events, including larger and rarer floods beyond the 100-year (1% AEP). This report also recommends that this assessment should consider future climate projections expected over the full lifecycle of the building.

Key solutions

As the representative body for general insurers, we are working alongside the community, governments and industry to help ensure insurance remains affordable and accessible by advocating for:

- The general insurance industry to reduce emissions this decade and achieve net zero by 2050
- Greater resilience investment from all governments to better protect communities[9]
- Improved resilience and building quality in the built environment, including strengthening the National Construction Code and building standards and improving land use planning[10]
- The removal of state taxes on insurance products to improve insurance affordability for at-risk communities
- Strengthening data capabilities and priorities to build a national picture of climate risk

The first three of these points are of particular relevance to the bill in question and are expanded on below.

Transitioning Australia's economy to net zero

Tackling climate change is a national challenge and all levels of government need to play their part, as do all sectors of the economy, including insurers. Strong policy and coordination is required to ensure Australia achieves net zero by 2050.

Insurers operate in a global market sourcing capital and reinsurance outside of Australia. Reinsurers, investors, financial disclosure standards, regulators and customers are increasingly expecting insurers to play a role in the transition to net zero, to improve

[7] Queensland Government Household Resilience Program 17 June 2019
[8] Climate Change Impact Series: Flooding and Future Risks (insurancecouncil.com.au)
[9] Lessen the impact - Insurance Council of Australia
[10] Built environment - Insurance Council of Australia

transparency around insurance-associated emissions and demonstrate insurers understand and are managing climate risk.

Like other members of the Australian finance sector, some Australian insurers are aligning to the United National Environment Programme Finance Initiative's (UNEP FI) net zero ambitions. The Insurance Council is a foundation member of the United National Principles for Sustainable Insurance[11], as are several of our members. We recognise the UNPSI's important work in supporting global understanding of the contribution insurers can make to manage the physical, transition and liability risks relating to climate change. Insurers are considering their net zero ambitions in relation to their own operations, their investments and insurance related activities. Key examples are those that are part of UNEP FI initiatives such as the Net Zero Asset Owners Alliance[12] (NZAO) and the Net Zero Insurance Alliance (NZIA).[13] NZAO members commit to transitioning investment portfolios to net-zero GHG emissions by 2050 and NZIA members, such as IAG and QBE, have committed to transition their insurance and reinsurance underwriting portfolios to net-zero greenhouse gas (GHG) emissions by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100, in order to contribute to the implementation of the Paris Agreement on Climate Change.

Australian Government leadership on climate change, demonstrated through the setting of strong national emissions reduction targets, has an important role to play in accelerating the decarbonisation of our economy in a fair and equitable way. The ICA welcomes government policy that will effectively and swiftly reduce Australia's emissions, including the Bills which seek to implement a range of measures including enshrining the 2030 emissions reduction target. We welcome the Climate Change Authority regularly reporting on Australia's progress against national emissions reduction targets and the handing down of a science-based recommendation for Australia's 2035 emissions reduction target.

Increasing resilience investment to lessen the impact of extreme weather

Without increased funding to make Australian homes, businesses, and communities more resilient to extreme weather, coupled with a change in approach to what we build and where we build it, the risk profile of communities exposed to extreme weather risk will not change. For insurers to continue to provide insurance coverage at affordable pricing a key action required is strengthening the resilience of our homes, businesses, and communities.

Analysis conducted by actuarial consultancy Finity for the ICA has identified a range of resilience measures that would provide significant returns on investment by better protecting communities from and lowering our risk exposure to extreme weather. Finity has outlined a five-year program of resilience measures requiring an investment of approximately $2 billion that is expected to reduce financial costs to Australian governments and households by more than $19 billion by 2050.

These recommended measures are:

- Local Infrastructure Fund (eg levees, floodways and other local mitigation infrastructure)
- Cyclone Proofing Homes program
- Wet Flood Proofing Existing Homes program (raising utilities above the floodline)
- Fuel management program
- Flood Early Warning System

[11] UNEP FI Principles for Sustainable Insurance
[12] https://www.unepfi.org/net-zero-alliance/
[13] https://www.unepfi.org/net-zero-insurance/

- National Coastal Hazard Information Database

These measures were chosen for analysis because they provide the best return on investment and/or will provide significant other benefits to those communities most exposed to risk from extreme weather.[14]

The Australian Government's commitment to provide $200 million a year for resilience investment is welcome. This should be matched by the states and territories, lifting national resilience investment to at least $400 million a year. For example, the Queensland Government has now committed to $741 million in resilience spending, which includes funding for the Resilience and Risk Reduction Fund, essential public infrastructure and the Fire and Emergency Services.[15]

Improved resilience and building quality in the built environment

Land use planning

Effective land use planning in areas that are subject to extreme weather risk can significantly reduce the increase in disaster risk and enhance the resilience of existing and future communities. This is particularly important for managing flood risk. As urban populations expand, new houses are increasingly being built on floodplains and flood prone areas. Increasing development in and around these areas also, over time, alters the effectiveness of any prior mitigation and fundamentally changes the future risk to communities and property. In this context, the threshold of acceptable risk needs to be reconsidered and the consequences of flooding, not just the probability, taken into consideration including under updated regulated planning arrangements supported by current and future risk studies.

Land use planning legislation should be amended to include a mandatory requirement for planning approvals to consider property and community resilience to extreme weather and natural disasters. In addition, a requirement for a natural peril risk rating on all homes during the sales process as an accompaniment to a contract of sale should also be introduced. [16]

National Construction Code

The National Construction Code (NCC), administered by the Australian Building Codes Board (ABCB), is developed and amended with three mandatory core objectives established under the Intergovernmental Agreement made between the Commonwealth Government and each State and Territory Building Ministers a coalition identified as the Building Ministers Meeting (BMM). These mandatory obligations are to efficiently achieve:

- Health and safety
- Amenity and accessibility
- Sustainability

These objectives do not include any consideration of property durability or resilience. Like the NCC, there is no requirement in the development of Australian Standards to consider building durability or resilience. This is exacerbated by the quality performance of construction in Australia. Numerous reports have highlighted the prevalence of defective building work across Australia, compounded by a lack of robust compliance activity, most notably the Building Confidence Report (BCR).[17] There is insufficient clarity under the NCC for defect responsibility, leading to disputes. The BMM has tasked the ABCB with reviewing, consulting with industry and the community and reporting on the considerations made by the 24 recommendations within the BCR.

[14] Reaping the Rewards of Resilience – ICA: Report (insurancecouncil.com.au)
[15] Additional resilience funding welcome in Queensland budget - Insurance Council of Australia
[16] 037 Insurance Council of Australia.pdf (nsw.gov.au)
[17] building_ministers_forum_expert_assessment_-_building_confidence.pdf (industry.gov.au)

The outcomes proposed by the ABCB, currently at consultation stage, should be incorporated into the NCC at the earliest opportunity with agreement of the States and Territories through BMM to adopt in full those amendments to the NCC. The insurance sector has significant experience supporting the development of Australia's built environment, including the provision of expertise on the remediation of poorly constructed buildings, but this expertise is currently not harnessed at the strategic policy formulation level.

The Insurance Council looks forward to supporting the Government's objectives for addressing climate change through the Climate Change Bill 2022 and the Climate Change (Consequential Amendments) Bill 2022 and working on some of the critical policy solutions outlined above.

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Alix Pearce, Senior Manager, Climate Action [redacted].

Yours sincerely,

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Executive Director and CEO