



Committee Secretary  
Joint Standing Committee on Treaties  
Department of House of Representatives  
PO Box 6021  
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CANBERRA ACT 2600

Submission No. 18  
TT 25 June 2008

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18 August 2008

Dear Committee Secretary

**Submission to the Joint Standing Committee on Treaties**

The Insurance Council of Australia<sup>1</sup> is appreciative of the opportunity, offered in a 31 July letter from Kelvin Thomson MP, to respond to the Standing Committee on the issue of international negotiation on emissions reductions.

The general insurance industry has a long standing and direct interest in climate change driven by the predictions (under medium to high emissions scenarios) of an increasing number of extreme weather events and the consequential damage that communities stand to incur. In Australia, 19 of the 20 largest property insurance losses since 1967 have been weather related, the largest being the April 1999 Sydney hailstorm (\$A2 billion in 2005 dollars). In a more global context, 37 of the 40 largest insured losses from natural catastrophes since 1970 have been weather related.

Insurance companies provide cover against extreme weather risks. However, the increased frequency of significant natural disasters associated with global warming and climate change will inevitably increase pressure on the pricing of premiums, highlight the need for personal risk mitigation measures, and bring into question the physical, social and economic resilience of the Australian community to withstand increased natural disasters.

The general insurance industry plays a crucial role in risk mitigation and subsequent recovery after a natural disaster. Following a disaster the direct financial assistance provided by insurers to people holding general insurance policies<sup>2</sup> is a key economic contributor for the affected community, as demonstrated following Cyclone Larry, the

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<sup>1</sup> The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. 2008 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross premium revenue of \$30.8 billion per annum and has assets of \$90.6 billion. The industry employs approx 60,000 people and on average pays out about \$83 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

<sup>2</sup> Importantly, only approximately 75% of all households and businesses in Australia have a general insurance policy, against which they have taken out varying levels of cover, to manage their personal/business risks in the event of loss or damage to assets or business operations.

Canberra Bushfires and the Newcastle Earthquake. The level of take up of insurance by individuals and businesses in a community will also have a direct impact on their speed and capacity to recover after a disaster, including rates of return to homes and businesses, ongoing levels of employment in the affected community, and reliance on welfare.

The general insurance industry has a strong interest in contributing to the economic, social and environmental wellbeing of the Australian community, and in this context has been and continues to be active in responding to the challenges posed by climate change.

### **Support for Emissions Trading**

The Insurance Council supports the introduction of emissions trading in Australia as part of a comprehensive and co-ordinated response to global warming and climate change. From the industry's perspective, a well designed, globally-linked and integrated emissions trading scheme would provide an important economic mechanism for enabling the shifts required within the energy sector and across the private sector generally, to meet climate challenges.

The economic rationale for taking immediate action was outlined in *The Business Case for Early Action* produced in April 2006 by the Australian Business Roundtable on Climate Change. Projections made for the Australian Business Roundtable on Climate Change are that under the early action scenario:

“the deep cuts in GHG emissions are delivered while GDP grows strongly at an average 2.1% pa over the period to 2050, in comparison with the base case in which GDP grows on average by 2.2% pa .... (and)

...the economic impact by 2020 under early action would be modest: the GDP projected for early action is 1.095 trillion compared with \$1.110 trillion in the base case (and delayed action scenario) in 2020.”

It should be noted that these projections do **not** take into account any of **the costs of not taking action** such as reduced water availability and increasing occurrence of extreme weather-related events.

### **Domestic Emissions Trading vs Participation in Global Emissions Trading**

The general insurance industry strongly supports the concept of active Australian participation in the global carbon trading market. The design of any domestic trading scheme should be closely linked to international schemes.

Until an appropriate global trading scheme is established it is crucial to establish a strong domestic based scheme, to achieve long term reductions in GHG emissions in an economically efficient way, providing greater certainty and predictability for business and the community.

The industry strongly supports the concept of Australia assisting in the development of an international emissions trading architecture as a means of reducing global GHG emissions. We urge caution regarding any policy that places the Australian economy at a disadvantage through adoption of internal emissions trading and carbon pollution policies that are not paralleled by the policies and initiatives of other significant producers of GHG, such as China, India and the USA.

### **Treaties – GHG Emissions Trading vs Adaptation**

The long term economic impacts of a failure to adapt to impacts of climate change have already been the subject of some discussion and modelling both domestically and internationally. The general insurance industry adopts the position that adaptation of business and domestic practices and arrangements to manage the projected impacts of climate change is a critical matter.

Robust emissions trading arrangements are but one of a stream of options available and should be linked financially to the adoption by business and individuals of active financial risk mitigation and property protection measures. Current figures indicate that 1 in 4 Australian households/businesses have no personal financial risk mitigation, in the form of general insurance, that may be called upon following an extreme weather event.

Measures to encourage Australians to adopt appropriate mitigation measures in the face of increasing risk from climate change must be considered as part of the domestic effort to adapt.

In an international context, the general insurance industry notes that there has been little penetrative discussion of adaptation as a means to reduce the physical, social and economic impacts of climate change. We strongly encourage the Standing Committee to explore opportunities to develop dialogue on this important aspect of preparing international and local communities for potentially more extreme weather events.

If you have questions regarding this submission please contact Mr Karl Sullivan, Insurance Council's General Manager Risk & Disaster Planning, on (02) 9253 5155 or by email at [ksullivan@insurancecouncil.com.au](mailto:ksullivan@insurancecouncil.com.au).

Yours sincerely,

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