12 July 2024

Select Committee on the Impact of Climate Risk on Insurance Premiums and Affordability
PO Box 6100
Parliament House
Canberra ACT 2600
By email: climaterisk.insurance.sen@aph.gov.au

Dear Chair,

IAG[1] welcomes the opportunity to make a submission to the Select Committee on the Impact of Climate Risk on Insurance Premiums and Affordability.

IAG's purpose is to make your world a safer place, and we recognise that our role extends beyond transferring risk and paying claims. IAG's purpose drives our business to collaborate with the community, Government, industry bodies and other organisations to understand, reduce and remove risk, as well as build resilience and preparedness. This results in safer outcomes for the community and means fewer claims and lower premiums for our customers.

As a large Australian and New Zealand general insurer, we see the impacts of historic land use planning decisions in the aftermath of a natural disaster. The black summer bushfires and recent years of flooding saw 1 in 25 Australians lodge an insurance claim due to extreme weather.[2] Insured costs are only part of the cost of natural disasters, with further long term financial and social impacts on affected communities, such as uninsured property, essential infrastructure damage, business disruptions, psychological stress, injury and loss of life.[3]

We know natural hazards are a part of everyday life and will continue to happen. However, we believe the ability of communities to safely withstand and financially protect themselves from these risks is determined by *what* communities build in high-risk locations, *how* they build and the decision *to* build there. Additionally, we are seeing the current cost-of-living pressures continuing to have a significant impact on communities. Property insurance is not immune to premiums increasing, therefore making it difficult for policyholders in high-risk locations to sufficiently insure their assets.

Insurance is the only financial protection from natural disasters, and as the weather becomes more severe due to increased climate risk, legacy and planning decisions will continue to impact on property damage and

[1] IAG is the parent company of a general insurance group with controlled operations in Australia and New Zealand. Our businesses underwrite almost $12 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU and WFI (in Australia); and NZI, State, AMI and Lumley Insurance (in New Zealand). With more than 8.5 million customers and information on the majority of domestic residences in our markets, we use our leadership position to understand and provide world-leading customer experiences, making communities safer and more resilient in the future.

[2] Insurance Council of Australia, https://insurancecouncil.com.au/resource/three-year-weather-bill-reaches-12-3-billion/

[3] Australian Business Roundtable, http://australianbusinessroundtable.com.au/assets/documents/Report%20-%20Social%20costs/Report%20-%20The%20economic%20cost%20of%20the%20social%20impact%20of%20natural%20disasters.pdf

the related cost of insurance.[4] Current and future land planning decisions will play a critical role, not only in rising insurance costs, but also across community safety. This may lead to less affordable insurance, underinsurance, and in a worst-case scenario no suitable insurance available, creating a larger reliance on Government assistance following natural disaster events. Without better informed land planning decisions, high-risk communities will continue to be vulnerable, resulting in the less likelihood of families returning to their way of life following a natural disaster.

As highlighted in *figure 1,* IAG has been a strong advocate for reducing the natural disaster risk communities face to prevent the ongoing cycle of disasters, recovery, and rebuilding, which has led to higher premiums for our customers since 2003. IAG continues to collaborate with partners such as James Cook University, the US National Center for Atmospheric Research (NCAR), and others across Australia to better understand and communicate the impact of climate change on properties across Australia, and subsequent premium impacts.

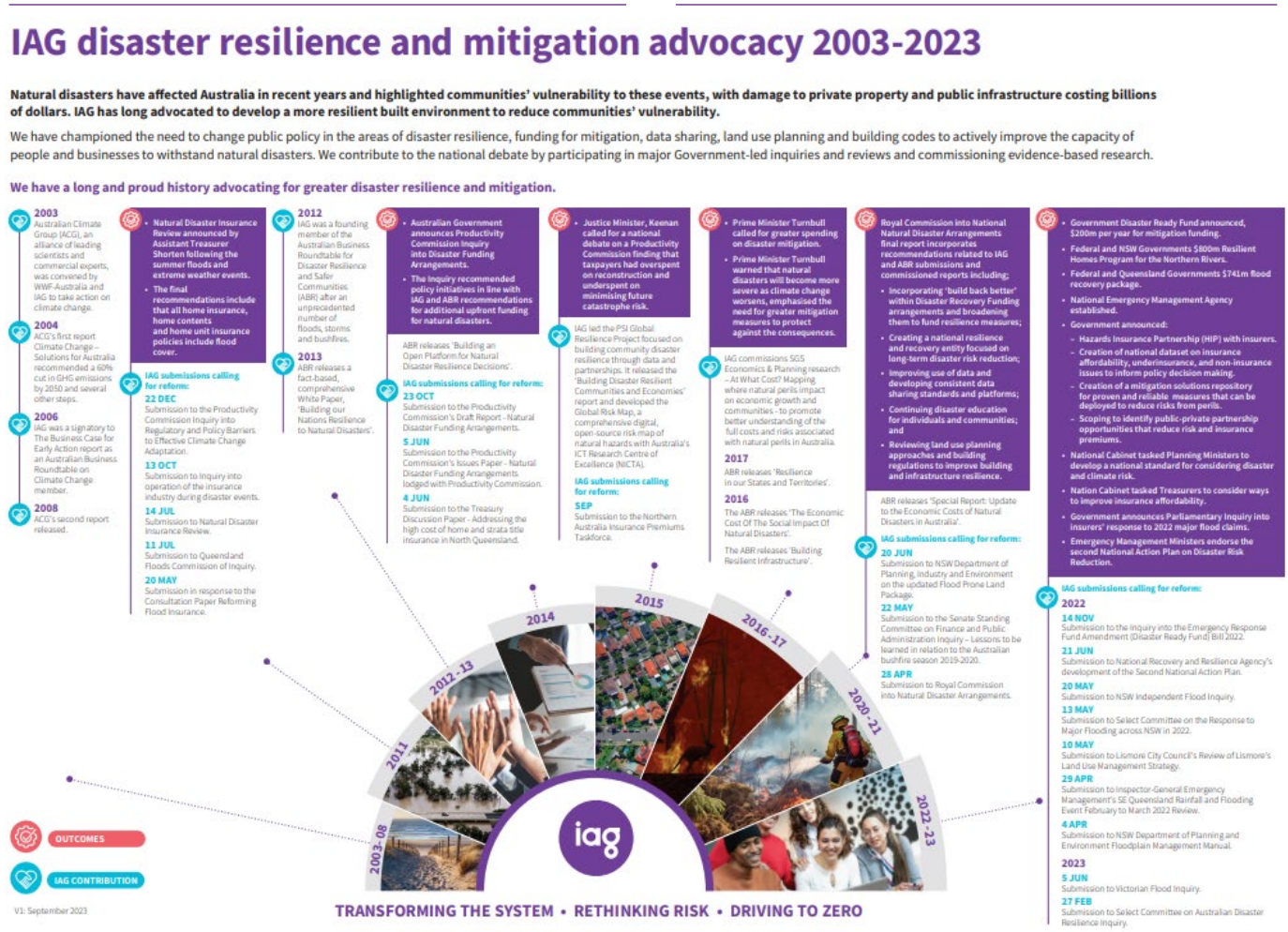


Figure 1: IAG disaster resilience and mitigation advocacy 2002-2023 (also found in attachment C)

IAG's in-house Natural Perils team, made up of meteorologists, atmospheric scientists, hydrologists, and engineers has unique expertise in measuring disaster risk and understanding options to address high hazard characteristics of buildings and property.

[4] Severe weather in a Changing Climate – 2nd Edition (2020) Available at https://www.iag.com.au/about-us/research

Our recent research publications have quantified the impacts of climate change on risk to property. These include Severe Weather in a Changing Climate[5] (in partnership with the US National Center for Atmospheric Research) and Regional Sensitivity of Australian Flood Risk to Climate Drivers.[6]

IAG brand, NRMA releases quarterly Wild Weather Tracker reports, which identify forward weather forecasts, total claims and risks identified over the past 3-months and findings ahead of the next weather season.[7] Further, NRMA in partnership with Australian Red Cross and Lifeline facilitate EmergencyRedi workshops in Australian communities to strengthen resilience and prepare for natural disasters. Since the partnership began, we have conducted 9 pilot workshops across December and January and 14 workshops through May and June this year in communities across New South Wales, Queensland and South Australia.

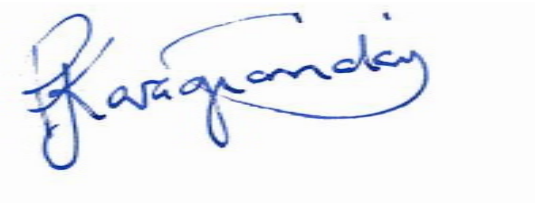
IAG commends the Committee for taking an important step to seek better understanding of the impact of climate change on insurance premiums and affordability. We see this step as a collective effort address the change in climate risk and influence better planning decisions, ultimately aiming to reduce the risk of increasing insurance premiums across Australia.

Our submission specifically addresses terms of reference a, b, c, & f. Incorporating climate risk into all levels of economic planning and incentivising risk mitigation measures can help distribute the financial burden more evenly across the economy. These strategies ensure that the costs of climate adaptation and resilience are shared, fostering a more resilient and sustainable economic framework. It will further support the transition, outlined in the recently released *Sustainable Finance Roadmap* where it defined the transition as both reducing emissions as well as adaptation activities to manage physical climate risks.[8]

Our key recommendations are at Attachment A. Highlighted in Attachment B are findings from IAG-led research with policy recommendations with respect to planning, mitigation and relocation.

We welcome the opportunity to discuss the issues raised in this submission in more detail. Please contact Clare Cordingley, Government & Industry Affairs Advisor at clare.cordingley@iag.com.au.

Sincerely,



George Karagiannakis
Executive Manager Government & Industry Affairs

[5] Severe weather in a Changing Climate – 2nd Edition (2020) Available at https://www.iag.com.au/about-us/research

[6] Available at www.floods.org/client_images/2128563.pdf

[7] NRMA, Wild Weather Tracker https://www.nrma.com.au/wild-weather-tracker

[8] Sustainable Finance Roadmap, The Treasury, Australian Government, ', June 2024

Attachment A

Summary of recommendations

Insurance affordability and availability challenges due to climate related risk	Federal and State Governments develop resilience in land use planning capability program for local Government, prioritising the most vulnerable councils.
	Fund and define specific roles in Local Government to enhance disaster resilience planning in high and at-risk areas.
Underlying causes and impacts of increased insurance premiums	The extreme risk underlying areas with insurance affordability stress must be managed through comprehensive public policy and strategic planning in partnership with state and territory Treasurers
	Revisiting land-use planning and policy, enhancing mitigation efforts, addressing unfair taxes, thereby reducing the financial burden on affected communities.
Role of Governments in implementing climate adaptation and resilience measures	Climate adaptation and resilience measures should be coordinated by State and Territory Government agencies to centralise key skill sets and achieve appropriate economies of scale, while ensuring that Local Government remains a key stakeholder. We see measures such as planned Relocation requires a coordinated and consultative approach across Federal, State / Territory and Local Governments.
	Responsible agencies should proactively identify high-risk locations and develop Community Adaptation Plans prior to a natural hazard event occurring. This will allow for relocation, resilience, and mitigation measures to be pro-active before a natural hazard event occurs and/ or be implemented swiftly following a natural hazard event. Identification and prioritisation of high-risk locations should utilise risk data through a range of sources, including Local Government, State / Territory Government, and other sources such as the Hazards Insurance Partnership.
	Federal and State Governments should formalise funding arrangements, to ensure climate adaptation and resilience measures can be adequately funded on an ongoing basis commensurate to the risk to life, property, and the economy.

Attachment B

Insurance affordability and availability challenges due to climate related risk

In the report *Addressing Resilience in Land Use Planning* by IAG and AECOM, it was highlighted that certain regions are facing increasing challenges in obtaining insurance due to heightened risks from climate-driven disasters.[9]

The report discussed the impact of climate induced natural disasters such as the 2022 Floods, and the 2019-2020 bushfires and the consequences communities at the urban fringe endure. These communities are not only impacted by increased effects of climate related risk, but are also grappling with the housing affordability crisis, cost-of-living pressures, and uncertainty of what the future holds.[10]

Insurance premiums are priced on a per-address basis and reflect the risk of natural perils at each location (including climate-related perils such as storm, hail, flood, fire and cyclone). Some insurers may be reluctant to enter or continue their presence in certain regions with risk of frequent or severe weather events, including coastal regions and areas prone to bushfires. While our general insurance brands strive to provide coverage to all, the inherent risks associated with certain areas result in premiums that may be unaffordable for many customers.

The impacts of climate related risk are particularly noticeable in regions like North Queensland and Northern NSW, where frequent and severe natural disasters have recently resulted in extreme impacts to communities and high claim costs to insurers. While insurance pricing is reflective of long-term underlying risk, recent inflation and claims costs have resulted in premium increases over the past year.

This underscores the need for comprehensive public policy and strategic planning to enhance resilience in these vulnerable areas, ensuring that insurance remains accessible and affordable while mitigating the risks posed by climate change-induced disasters.

Insurance affordability and availability challenges due to climate related risk	Federal and State Governments develop resilience in land use planning capability program for local Government, prioritising the most vulnerable councils.
	Fund and define specific roles in Local Government to enhance disaster resilience planning in high and at-risk areas.

[9] Addressing Resilience in Land Use Planning, https://www.iag.com.au/about-us/research

[10] Addressing Resilience in Land Use Planning, https://www.iag.com.au/about-us/research

Underlying causes and impacts of increased insurance premiums

Since 2021, there has been a rise in intense rainfall and flooding across much of the east coast of Australia. In 2022, the ICA declared two catastrophes related to flooding and two significant events where regions were impacted by extreme flooding. Since 2022, more than $10.5 billion has been declared in industry losses from flood, hail and cyclone related events.[11]

Additionally, reinsurance costs have increased as Australia's risk profile to the reinsurance market has shifted as reinsurers look to recover additional premium to offset the significant peril losses experienced in recent years. Supply chain challenges, including a shortage of trades and the rising cost of materials since the COVID pandemic, have also contributed to higher insurance costs.

The primary driver of increased premiums is inflationary pressures through the insurance supply chain, leading to both higher rates and higher sums insured. This inflationary pressure is most apparent in areas with high natural peril risk, where high insurance premiums (reflective of high underlying risk) have been exacerbated by inflationary pressures.

The impacts of these rising premiums are multifaceted, affecting affordability and leading to higher rates of underinsurance. This, in turn, places significant financial strain on households and businesses. Additionally, the residual risk—risk that remains after mitigation efforts— can play a critical role in influencing insurance premiums.

One of the policy measures that can help alleviate the impacts of premium increases is the removal or reduction of state taxes and charges on insurance products. These taxes and charges are regressive and inefficient, as they discourage insurance uptake and penalize those who seek adequate cover. According to the Actuaries Institute[12], state taxes and charges account for the second largest component of the cost in insurance premiums, reaching up to 20 per cent in some states. This means that policyholders are paying more than they should for their insurance, and those who are most vulnerable to climate risks are bearing the brunt of this burden. IAG supports the Insurance Council of Australia (ICA) and the broader industry's advocacy on state taxes and charges and urges the state governments to reform their taxation systems to ensure that insurance remains affordable and accessible for all Australians. In this context IAG welcomed the NSW Government’s recent decision to reform the Emergency Services levy which adds an impost of up to 20 per cent on home insurance premiums.

Underlying causes and impacts of increased insurance premiums	The extreme risk underlying areas with insurance affordability stress must be managed through comprehensive public policy and strategic planning in partnership with state and territory Treasurers.
	Revisiting land-use planning and policy, enhancing mitigation efforts, addressing unfair taxes, thereby reducing the financial burden on affected communities.

[11] Insurance Council of Australia, https://insurancecouncil.com.au/industry-members/data-hub/

[12] Actuaries Institute, Funding for Flood Costs: Affordability, Availability and Public Policy Options, https://www.actuaries.asn.au/docs/thought-leadership-reports/funding-costs-for-floods.pdf, August 2023

Climate risk pricing impacts to non-peril covers

At IAG we have an internal team monitoring changes to the climate and we price our policies year on year for the expected risks of the following year. The long-term risks of climate change are difficult to model with certainty, as there are limited studies focusing on the extreme weather conditions relevant to property insurance. Our team are working with leading scientific institutions to understand the impacts of climate change on severe weather and regularly publish on the topic through publications such as *Severe Weather in a Changing Climate 2nd Edn.*

Insurance products not directly exposed to climate risks are nonetheless experiencing premium increases due to broader adjustments in the reinsurance market and inflation in claim supply chain costs. Indirect effects such as supply chain disruptions and economic instability arising from severe weather events also contribute to the broader increase in premiums. This market-wide adjustment is necessary to cover heightened overall risks, which may subsequently impact all insurance products.

These cascading impacts underscore the interconnectedness of our economic and environmental systems, highlighting the necessity for comprehensive and adaptive public policy measures to mitigate these effects and ensure equitable and sustainable insurance practices.

Role of Governments in implementing climate adaptation and resilience measures

We commend the recent decision by Commonwealth, state and territory building ministers to include climate resilience as a specific measure of the Australian Building Codes Board (ABCB) from 2025.[13] This will provide the ABCB a clear mandate to develop future National Construction Code Requirements that reduce the impact of natural disasters on housing and other critical community facilities.

Resilience in Land Use Planning further explores enablers and barriers to including natural disaster considerations in land planning from a developer, insurer, local, state, and federal government perspective. The report outlined six key challenges for land use planning to incorporate natural disaster resilience, with ten recommendations for change mapped to these challenges.

The long-term aim of these recommendations is to ensure disaster resilience is a key consideration in the land planning system and that we are no longer building communities in harm's way. This has a flow-on impact to ensuring future communities have access to affordable and available insurance products.

Overall, the research found that incorporating natural hazard risk into land use planning to mitigate future disaster losses is critically important to Australia's future.

In addition, integrating climate and disaster resilience into land use planning is complex and so an adaptable approach is required that reshapes planning and development practices to accommodate rapid social, economic, environmental, and cultural changes. The barriers preventing planning regulatory frameworks to align with contemporary disaster resilience goals are interdependent and require confronting trade-offs, accounting for uncertainty and considering the flow on effects.

[13] Building Ministers' Meeting: Communique June 2024, https://www.industry.gov.au/news/building-ministers-meeting-communique-june-2024

In March 2023, IAG released *Planned Relocation; Protecting our Communities* with Rhelm, which undertook an investigation into the enablers and barriers of Planned Relocation in Australia for residential properties.[14] The Planned Relocation Framework discussed dealt with concepts such as buy-back schemes and

communities. Community participation is an essential part of developing and implementing a Planned Relocation Scheme. However, the paper highlights some of the key community themes and issues that were identified in the fact finding to inform subsequent strategies and investigations. The themes highlighted within the stage of decision and planning, demonstrated that the perception of risk can differ due to a range of factors. This could be through lived experience, or the time from when the last event occurred. In addition, a sense of place (community) can result in resistance in community willingness to relocate. Doing so can lead to decreased financial value in specific locations, and further psychosocial impacts. Approach to engagement with stakeholders is important and too is the language used. Finally post-event trauma can have an influence on community engagement with planned relocation and the decision-making process.

Role of Governments in implementing climate adaptation and resilience measures	Climate adaptation and resilience measures should be coordinated by State and Territory Government agencies to centralise key skill sets and achieve appropriate economies of scale, while ensuring that Local Government remains a key stakeholder. We see measures such as planned Relocation requires a coordinated and consultative approach across Federal, State / Territory and Local Governments.
	Responsible agencies should proactively identify high-risk locations and develop Community Adaptation Plans prior to a natural hazard event occurring. This will allow for relocation, resilience, and mitigation measures to be pro-active before a natural hazard event occurs and/ or be implemented swiftly following a natural hazard event. Identification and prioritisation of high-risk locations should utilise risk data through a range of sources, including Local Government, State / Territory Government, and other sources such as the Hazards Insurance Partnership.
	Federal and State Governments should formalise funding arrangements, to ensure climate adaptation and resilience measures can be adequately funded on an ongoing basis commensurate to the risk to life, property, and the economy.

[14] Planned Relocation: Protecting Our Communities, https://www.iag.com.au/about-us/research

Committee for Sydney – Defending Sydney, Adaptive planning for today's flood and tomorrow's climate risk – October 2023

IAG was a partner with AECOM and Resilient Sydney on this Committee for Sydney thought leadership paper. The report released in October found that the $6 billion of insured losses from the 2022 East Coast Floods were dwarfed by the uninsured impacts, estimated to have surpassed $15 billion. It is projected that by 2060, natural disaster costs broadly may surpass $70 billion nationally.

It identified that NSW is currently facing both a housing crisis, and a climate crisis in parallel and without clear processes and planning to manage the risk of homeowners being placed in areas exposed to floods, fires and the compounding impacts of climate change.

Key challenges identified were:

1. Sydney's population and temperatures are rising concurrently, raising climate-related risk.
2. More frequent flooding is raising insurance premiums and recovery costs.
3. Land use planning is disconnected from rapidly changing natural hazard and climate risk data.
4. Assets and infrastructure are not designed or funded to withstand future hazard risk.
5. Current risk transparency and governance arrangements are unfit for a changing climate.

The report made three key recommendations:

1. **Place based adaptive pathways**
   Enable policymakers and communities to understand risk tolerance across the community, infrastructure providers, and with business (including insurers and banks).
2. **Climate responsive land use planning**
   The report recommended following examples from cities around the world where climate risk zones have been implemented, such as New York, Norfolk and Virginia. The approach worked to advise the community that risks are increasing and enable communities to adapt in place or relocate as risk becomes too much.
3. **Collaborative decision making**
   This is essential to ensure business and community continuity in the face of natural disaster. The Resilient Sydney program identified disjointed governance as one of the metropolitan Sydney's major challenges, working over the past 8 years to build connections across local and state government, to increase equity and build capacity and knowledge for communities responding to changing risks.

Additional recommendations relevant to this submission

- Make climate and natural hazard risk transparent in both strategic land use planning and engaging communities and households to ensure that we are planning and building in areas that are not prone to climate and natural hazard risk.
- Engage the financial services sector (particularly insurers and banks) in planning for climate and natural hazard risk.
- Develop place-based adaptation pathways that build on the risk tolerance of the community and perspectives of lifeline infrastructure providers.
- Leverage disaster adaptation plans to identify climate risk zones, and priority investments in lifeline infrastructure, that respond to changing risk.
- Develop a statewide policy for managed retreat – take what we know from here and overseas and build the capacity and process to reduce existing risk to communities.

Rhelm report – National Flood Hazard Mitigation Priorities – April 2022

To assist with decision making in where and how mitigation funding is best spent, IAG commissioned Rhelm to develop a set of National Flood Hazard Mitigation Priorities. The method for setting priorities involved identifying areas with high flood risk where there are potential flood mitigation measures that could be implemented to reduce the level of risk and then ranking the practicality and cost benefit of each area.

We have attached the report to this submission. We welcome the opportunity to provide a further brief on this report and its findings to the Standing Committee. This report is a technical report that accompanies a series of flood summaries or "snapshots" that have been prepared for each of the short-listed areas identified to be affected by high flood risk.

There are two key components of the attached report:

- The identification of potential structural flood mitigation measures (also known as flood modification measures in some jurisdictions) in short-listed floodplains across the country, and an economic assessment of these measures.
- A review of potential property level mitigation measures.

The Menzies Research Centre Report – Strengthening Resilience: Managing Natural Disasters – April 2020

IAG commissioned the report to be part of our submission to the 2020 Royal Commission into National Natural Disaster Arrangements. We commissioned this paper to synthesise the existing information on how Australia can prevent and respond to bushfires and other natural perils. It summarises what has been learnt and what can be changed in the future. IAG supports the recommendations of this paper. The five key recommendations are:

1. Government funding should further prioritise risk reduction which will reduce the need to spend on disaster recovery.
2. Introduction of a National Bushfire Risk Rating (NBRR) system for all bushfire prone communities, properties, and structures.
3. Introduction of a national approach to land use and building codes.
4. Creation of an open access information platform comprising all data required for natural hazard management.
5. Tax reform to improve the affordability and increase uptake of insurance.

SGC Economics & Planning report – At what cost? Mapping where natural perils impact economic growth and communities – November 2016

IAG commissioned the report to examine the impacts that floods, storms, tropical cyclones, bushfires, and earthquakes, have on economic activity. The report also highlights the link between the risk of natural disasters and the ability of communities to have the resources to recover and rebuild from devastating events.

Further information and the full report available here: https://www.iag.com.au/what-cost.