

## **2020 Summit Submission Insurance Australia Group**

Weather and climate are “core business” for the general insurance industry. A large percentage of general insurance claims are caused by weather related disasters including cyclone, severe storms and bushfires.

Insurers underwrite weather-related losses (including physical damages to insured property and interruptions to business continuity) by assessing, pricing and spreading the risk and then meeting claims when they arise. Climate Change research indicates that there will be an increase in the frequency and severity of weather related events.

There is an urgent need to consider how communities will cope with the adverse impacts of climate change. One important means is for governments to introduce effective, practical adaptation measures to build more resilient communities. A second and equally important response is to ensure that individuals and businesses have access to affordable insurance that can help them manage the financial losses arising from severe weather events.

Insurance Council research shows that nearly 25% of all Australian households do not have any form of home or contents insurance. This inevitably imposes an unwelcome burden on government when catastrophes occur. A major contributor to this situation is the current taxation arrangements in Australia which directly increase the cost of insurance.

The impact of combined Federal and State government taxes and charges on insurance premiums is to increase an insurance premium in metropolitan areas by up to 77.9% for business insurance, and up to 44.0% for home insurance. In rural Victoria the impost is even higher. Research by Access Economics, finds that stamp duties on general insurance are amongst the least economically efficient taxes in Australia. Further, in New South Wales, Victoria and Tasmania, fire services levies on insurance policies add significantly to the cost of insurance, distorting price signals and discouraging private uptake of insurance.

There is a clear social and economic case for eliminating or substantially reducing State insurance taxes and charges as a component of any climate change reform agenda. Public policy should reflect the benefits of insurance to the economy and community generally, particularly the role of insurance in enhancing community resilience to climate change. Governments need to act to implement a taxation system that does not penalise insurance relative to other more discretionary purchases.

Finally, there will be significant difference in the impact of climate change in developed versus developing countries. Developed countries have the economic strength to implement adaptation programs and to provide some financial assistance to those most vulnerable to climate change. Contrast this with the developing world where governments have less capacity to implement adaptation strategies that will give communities some resilience and where there are even lower levels of insurance penetration. In considering climate change responses in our region, the Australian government should consider not only how it supports regional adaptation measures but also encourages regulatory frameworks that encourage the growth of private insurance markets in our region.