

24 January 2012

Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

Email: prebudgetsubs@treasury.gov.au

Dear Sir/Madam

Insurance Australia Group (IAG) welcomes the opportunity to submit ideas and priorities for the 2012-13 Budget.

IAG is an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite over \$8 billion of premium per annum and paid around \$6.0 billion in claims per annum. It employs more than 13,000 people of whom around 9,000 are in Australia. Across our portfolio of brands IAG insures 6.9 million cars, 2.4 million homes, 92,800 farms, 121,100 employers and 375,200 businesses. IAG had more than 16.2 million active risks in force or policies in force in financial year 2011.

IAG's Direct Insurance business provides personal insurance products as well as business insurance packages designed for sole operators and smaller businesses in NSW, ACT, Queensland and Tasmania primarily under the NRMA Insurance brand. SGIO is the primary brand in Western Australia, and SGIC in South Australia. IAG also has a distribution agreement with RACV (underwritten by Insurance Manufacturers of Australia – owned 70% IAG; 30% RACV) in Victoria. Products are distributed through branches, call centres, the internet and representatives. Australia Direct contributed over 48% of the Group's gross written premium in financial year 2011.

IAG's intermediated insurance products are sold nationally, primarily under the CGU Insurance and Swann Insurance brands through a network of more than 1,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. CGU is also a leading provider of workers' compensation services in Australia. CGU contributed over 30% of the Group's gross written premium in financial year 2011.

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INCREASED FUNDING FOR MITIGATION AND ADAPTATION MEASURES

Recent natural disasters across Australia have understandably generated a national discussion of how we may reduce our vulnerability to natural hazard threats and also highlighted the need to develop a more sustainable and comprehensive national approach to the complex issue of managing climate change.

A changing, less predictable climate has the potential to reduce insurers capacity to accurately assess, price and spread weather-related risk. Without **appropriate mitigation and adaptation measures** to offset these uncertainties, the cost of insurance is very likely to rise, with some locations becoming too expensive for consumers to bear the cost of insurance or leading to some insurers withdrawing in part or totally from that market. The total cost of risks insured across Australia has the potential to rise significantly making insurance more expensive for all Australians. This highlights the need for appropriate action to be taken to benefit the entire Australian community.

IAG believes there is a need for greater emphasis by governments and in particular the Federal Government on community adaptation to extreme weather events, including stronger building codes to protect structures from extreme weather hazards such as tropical cyclones, severe storms, hailstorms, bushfires and flood, more risk-appropriate use of land, and greater emphasis on hazard mitigation infrastructure.

While the insurance industry is well placed to continue to play a leading role in encouraging action on adaptation, to make our communities stronger and better able to withstand catastrophes, there needs to be a focus on increasing the level of investment in mitigation infrastructure. IAG believes the \$27 million per annum allocated for mitigation works under the National Partnership Agreement on Natural Disaster Resilience is inadequate. Additional funding is needed to allow additional protective works.

Additional protective works could include barrages for unusual tides, levee banks, sea walls, properly maintained fire breaks and access trails, improved drainage and dams. Infrastructure investment has the double advantage of being a down-payment for future resilience and an economic generator.

Insurance is a means to provide compensation for financial losses. However, it is preferable to prevent losses from occurring subject to the cost-benefits involved. The optimal solution is a combination of the two – implementing preventative measures to reduce loss frequency and severity and insuring against rarer and more costly events. Government preventative infrastructure spending reduces future losses and enables more affordable property insurance schemes.

Currently, the Federal Government spends around \$30m per year in mitigation, yet in recovery funds it spends many times more:

- \$823m in 2010-11
- \$118m in 2009-10
- \$296m in 2008-09

(Source: Portfolio Budget Statements 2008-09, 2009-10, 2010-11)

In Queensland, insurers received and determined almost 130,000 disaster-related claims and are paying out \$3.7 billion to policyholders. To date about 82% of flood claims and 73% of cyclone claims have been closed, with insurers spending more than \$9.2 million every working day to assist Queenslanders to recover.

Flood mitigation works in Lismore illustrate the return on investment in mitigation and prevention. In 2005, after completing a \$19 million levee, Lismore experienced a 10% annual exceedance probability (AEP is the chance of a flood of a given size (or larger) occurring in any one year, usually

expressed as a percentage flood). The levee saved about \$15 million in recovery costs on that occasion alone and also played an integral part in minimising flooding in Lismore in subsequent years. (*Attorney-General, Hon Robert McClelland MP, Mayo Lecture James Cook University, Townsville, 6 October 2011, p. 4*)

All levels of government – led by the Federal Government – must significantly boost their low investment in mitigation infrastructure (such as levees and barrages) that will protect assets like homes and businesses, and lower the cost of risk. IAG is offering to work with Local Governments that experience natural hazards to assist in understanding the vulnerability of the risks and examine cost effective mitigation measures.

If you wish to discuss the issues outlined in the submission or make further inquiries please contact David Wellfare, Senior Adviser, Economics & Policy on (02) 9292 8593.

Yours sincerely



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