



Climate Change Policies Review
Discussion Paper Submissions
2017 Review Branch
Department of the Environment and Energy
GPO Box 787
Canberra ACT 2601

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Submitted via email to climatechangereview@environment.gov.au

Dear 2017 Review Branch

At IAG our purpose is to “make your world a safer place”, which means we are working to create a safer, stronger and more confident tomorrow for our customers, partners, communities, shareholders and our people throughout Asia Pacific.

IAG is the parent company of a general insurance group, with controlled operations in Australia, New Zealand, Thailand, Vietnam and Indonesia. The Group’s businesses underwrite over \$11 billion of premium per annum. Our businesses sell insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI in Australia; NZI, State, AMI and Lumley Insurance in New Zealand; Safety and NZI in Thailand; AAA Assurance in Vietnam; and Asuransi Parolamas in Indonesia. IAG also has interests in general insurance joint ventures in Malaysia and India.

Our objective is to make our customers safer and more confident through the products and services we deliver. Insurance is interdependent with the risk faced by individuals, businesses or communities. When consumers purchase insurance, they transfer certain risks to an insurer for peace of mind that they will be compensated for damage should an unexpected event occur. However, in order to deliver on this, insurers need to identify and manage the costs of those risks to ensure the premiums they charge meet the cost of future claims as they arise.

IAG’s in-house natural perils team enables us to consider the impacts of climate and weather patterns as part of our core business. We have a key interest in climate change and its impacts. As well as signalling risk and providing insurance, IAG has a long history of supporting Australian communities to become aware of the risks they face and to support them in building resilience. We’ve set targets to reduce our own carbon footprint and we work with the community, governments and partners such as the Australian Business Roundtable for Disaster Resilience & Safer Communities (Roundtable), the 100 Resilient Cities initiative, a range of research organisations and through our leadership positions with the United Nations Environmental Programme Finance Initiative (UNEP FI) to understand the myriad of issues related to climate change and natural disasters and to develop potential solutions.

We agree with the primary objective identified in the Paris Agreement - to limit global climate change to 1.5 degrees of global warming above pre-industrial levels. We acknowledge that more can be done in order to meet this objective and in an evolving and competitive industry, we continue to work to understand how we might fulfil our own leadership ambitions in line with our purpose.

We support this Discussion Paper on and the Government’s consultation. We welcome the opportunity to work with the Government in delivering action to enhance climate adaptation, resilience in Australia and develop a credible emissions reduction roadmap.

Impact of current climate change policies on the community

At IAG it is our core business to understand risks faced by communities, we believe we also have a role in educating customers and the broader community on what these risks are and what can be done to mitigate against them.

Many people take out insurance against the impacts from natural perils and extreme weather events. It is evident that changes in the climate system are increasing the severity of extreme weather events¹. In Australia, projected changes include an increase in the possibility of extreme rainfall events and flash flooding, as well as the number of days with harsh fire weather.

In tandem with the effects of a changing climate, we have seen the impacts of natural disasters are becoming more devastating and expensive for communities around the world, due to the increasing concentration of populations and their insured assets in locations with exposures to natural disasters.

An increasing number of natural perils, extreme weather events and the increasing costs of claims has an impact on the affordability and accessibility of insurance. We believe, the federal government's approach to climate change and its policies are critical to shaping the impacts that our customers, communities and the insurance industry will face in the future. Broadly, we believe Government climate change policies should ideally focus on;

1. Limiting further global warming

We support the primary objective identified in the Paris Agreement- to limit global climate change to 1.5 degrees of global warming above pre-industrial levels. To achieve this, it is important that the Government policies support a transition to a low-carbon economy whilst also building resilience and adaptation to change already occurring. We support thoughtful robust and progressive action by the government on reducing emissions and believe that a market based carbon pricing mechanism is required to provide certainty for Australia's economy while ensuring that our emission reduction commitments are met. We also support improving resource efficiency and promoting the uptake and innovation of low-carbon technologies.

2. Creating consistency

Clear, consistent, bipartisan policy is required in order to minimise the risks of transitioning to a low carbon economy. Whilst uncertainty remains around how emissions will be reduced it is difficult for business to plan for the risks and take up the opportunities. IAG supports the Taskforce on Climate Related Financial Disclosures acknowledgement that the transition risks we face are amplified while uncertainty remains on how Australia will reduce its emissions according to the Paris Agreement. Conversely, consistent and committed action that provides us and our customers with greater certainty will allow us to absorb and plan for the impact on our operating conditions in the long term.

It is also important to note that though physical risks persist in a 2-degree warming scenario and there would be more severe impacts should this global target not be met; these impacts would be felt by society as a whole but would also pose specific challenges to the insurance industry.

3. Enhancing community resilience, risk mitigation and adaptation

Climate change policies must expand to include funding and priorities for climate change adaptation, including resilient infrastructure and building codes as this will greatly reduce the long term economic and social costs of natural perils.

IAG is a founding member of the Australian Business Roundtable for Disaster Resilience & Safer Communities (Roundtable) and shares the Roundtable's objective for a sustainable, coordinated national approach to making communities more resilient and people safer. The Roundtable believes that national investment in disaster resilience and preventative activities is the most effective way to protect communities and reduce the impact of disasters.

¹ IPCC Special report on Extremes (2012), IPCC fifth assessment report 2014

The Roundtable in its 2013 White Paper found that targeted mitigation investment would produce a range of positive benefit-cost ratios which would reduce the cost of recovering from disasters. Despite this, mitigation funding rests at just one tenth of that of post-disaster recovery.² Future sustainability of disaster funding therefore lies in addressing this funding arrangement.

Concentrated risk areas could be much improved (reducing recovery cost and insurance price) with mitigation measures such as risk appropriate building codes, land use planning and localised defensive initiatives.

Another Roundtable report found that the true cost of natural disasters is at least 50% greater than previous estimates when the cost of the social impacts of natural disasters is accounted for. For example, the estimated costs associated with the Black Saturday Bushfire were larger than the financial costs, with at least \$3.9 billion in social costs verses \$3.1 billion financial costs associated with destruction of property and economic interruption.³

Given the increasing frequency and severity of natural disasters, the only effective means of ensuring future sustainability of natural disaster recovery funding is therefore shifting towards a model of upfront mitigation.

Role and Operation of Specific policies

Emissions Reduction Fund, its Safeguard Mechanism, the National Energy Productivity Plan

IAG supports the Government's efforts to create economic opportunities in response to climate change, and acknowledges the benefits that the ERF has had for some farming and land management authorities. IAG has voluntarily purchased carbon units since 2012 to pursue carbon neutrality. However, Australia's current policy suite has not appeared sufficient to put Australia on a clear pathway to deliver on our climate change ambitions.

IAG believes that a market driven pricing mechanism is essential to ensure that the cost and economic opportunities of emissions reduction are fairly and efficiently distributed across our economy and to provide greater certainty for investors, business and the community.

Role of research and development and innovation

IAG views research, development and innovation as a crucial part of reducing emissions. IAG believes innovation can help ease the transition to a low carbon economy and create new areas of economic and social benefit. Consideration should be given to building incentives such as tax concessions into these policies, to support the uptake of carbon reduction and climate resilience innovation by the corporate sector.

The potential role of credible international units in meeting Australia's emissions targets

IAG believe Australia should be a leader in the region pursuing opportunities for avoiding, reducing and managing our emissions in advance of any strategy reliant on the purchase of international units. We also acknowledge the opportunities presented by early, clear and considered action to achieve this pathway as having greater benefit for the country, our customers, our partners and the communities we work in.

Long term emissions reductions goal post 2030

Analysts acknowledge that in order to limit climate change to less than a 2-degree global warming scenario, we need to reduce current emissions toward net zero by 2050. A 26-28% reduction below 2005 levels by 2030 is a large step, but it is only an interim step in this ⁴broader challenge. It is

² Australian Business Roundtable for Disaster Resilience and Safer Communities, 2013, *Building our nation's resilience to natural disasters*, p. 4, available at www.australianbusinessroundtable.com.au

³ Australian Business Roundtable for Disaster Resilience and Safer Communities, 2016, *The economic cost of the social impact of natural disasters*, p. 2, available at www.australianbusinessroundtable.com.au

⁴ http://www.climateinstitute.org.au/verve/_resources/TCI_COP22_FINAL04112016.pdf

therefore important that the dramatic shift needed to achieve this 2-degree target is kept central to the minds and design of our climate change policies.

Climate change adaptation and the insurance sector

IAG is the only insurer and one of a few corporates to be carbon neutral since 2012 and with a commitment to absolute carbon reductions.

Our approach to underwriting considers environmental, social and corporate governance (ESG) issues including climate risk and some of our products and innovations do transfer, manage, mitigate long term risks posed by climate change. We have also been voluntarily purchasing carbon offsets units since 2012.

Internationally we are represented on the Global Steering committee for the UNEP FI as well as on the Principles for Sustainable Insurance (PSI) Board and in this role support UNEP FI activities as well as promoting and sharing our knowledge on climate risk through research collaborations. Through our PSI commitments, we have led a Global Resilience Project that focuses on building community disaster resilience through data and partnerships. This project released the report 'Building Disaster Resilient Communities and Economies' in 2014⁵ and in partnership with NICTA, Australia's Information Communications Technology Research Centre of Excellence, developed the Global Risk Map a comprehensive digital, open-source risk map of natural hazards⁶. The next phase of this project focuses on effective approaches to support cost effective investments in pre-disaster resilience and creating opportunities for more affordable, accessible and scalable insurance solutions.

IAG has continued our work to pursue national efforts to make communities safer and more resilient to extreme weather events through Resilient New Zealand and the Australian Business Roundtable for Disaster Resilience and Safer Communities. Through these, we partner with major businesses and community organisations to work collaboratively with national governments to affect change in public policy and increase investment in safer and more resilient infrastructure and communities, and by improving the capacity of people and businesses to better withstand future natural disasters.

We signed the Victorian Government's Take 2 Pledge on climate change and we've been actively involved in the 100 Resilient Cities initiative, serving on Steering Committees and Working Groups in Christchurch, Wellington, Melbourne and Sydney. We've also partnered with local councils across New South Wales to begin piloting DipStik, an early flood warning system that relies on flood monitoring devices on roads across rural areas.

As part of our partnership with Suncorp and James Cook University (JCU) Cyclone Testing Centre we are helping to study the impact of tropical cyclones on strata properties in North Queensland by sharing our claims data, expertise and funding. In 2016, we launched a national report and mapping tool, *At What Cost? Mapping where natural perils impact economic growth and communities*⁷ to promote better understanding of the full costs and risks associated with natural perils in Australia. Despite our progress so far, we would welcome the opportunity to work further with the government in delivering action to enhance climate adaptation and resilience in Australia.

Should you have any questions please contact Naomi Graham, Manager Public Policy & Industry Affairs on 02 9088 9450

Yours sincerely

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⁵ http://www.unepfi.org/fileadmin/documents/building_disaster-resilient_communities_economies_01.pdf

⁶ <https://www.iag.com.au/new-global-natural-disaster-risk-management-tool-launched>
<http://globalriskmap.nicta.com.au/>

⁷ <https://www.iag.com.au/shared-value/what-cost>