



11 April 2024

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The Treasury  
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IAG<sup>1</sup> welcomes the opportunity to comment on the Treasury consultation paper standardising natural hazard definitions and reviewing standard cover for insurance.

IAG's purpose is 'we make your world a safer place,' and we recognise that our role extends beyond managing risk and paying claims for our customers. Our purpose drives our business to work collaboratively with community groups, Government, and industry bodies to understand, reduce and remove risk as well as to build resilience and preparedness.

IAG has a long history of working proactively to support the communities in which we operate. As the largest Australian and New Zealand general insurer, we see the devastation of natural disasters firsthand and know the importance of our role in helping our customers rebuild and recover after severe weather events. We have long advocated that preparation, mitigation and strengthening resilience are essential tools for Australia to manage the risks that natural disasters pose to life, property, and prosperity.

Through our brands, IAG drives and participates in a variety of key initiatives that seek to improve consumer awareness of their natural hazard exposure. We do this through our partnerships with community and government organisations, including:

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<sup>1</sup> Insurance Australia Group Limited (IAG) is the largest general insurance company in Australia and New Zealand. Our businesses underwrite over \$14 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance, WFI and ROLLiN' (Australia); and NZI, State and AMI (New Zealand).

1. Most recently, NRMA Insurance partnered with the Australian Red Cross to launch *Help Nation* which will deliver more than 2,000 *EmergencyRedi™ Workshops* over the next three years, helping tens of thousands of people in Australia get prepared for extreme weather and emergencies<sup>2</sup>.

Help Nation is also joining with Lifeline Australia to build a disaster resilience toolkit, to provide information and resources for people impacted by climate and natural disasters.

2. IAG, alongside NAB and Bluescope helped fund the development of a *Resilience Rating Framework* for the Resilient Building Council (RBC). IAG also contributed to the methodology behind the 5-star resilience rating system which formed the basis of the RBC's *Bushfire Resilience Rating Home Self-Assessment app*.

NRMA Insurance will provide pricing benefits to customers with properties at risk of bushfire, who have had their self-assessment certified by the Resilient Building Council and achieved a rating of 3 stars or above. The higher the star rating, the greater the pricing benefit<sup>3</sup>. IAG values the funding the National Emergency Management Agency (NEMA) has contributed to this app and strongly supports continued funding and the roll out to include other perils such as flood, cyclone, and storm.

3. Ongoing participation in the Australian Government's *Hazards Insurance Partnership (HIP)* to develop a series of initiatives to put downward pressure on insurance premiums and better target mitigation investment to help improve insurance affordability over time<sup>4</sup>.
4. The *Wild Weather Tracker*<sup>5</sup>, which is released after every season, to encourage people to take action to protect their properties, vehicles, and the community from the impacts of wild weather. The report covers severe weather claims across New South Wales, Queensland, the ACT, South Australia, Western Australia, the Northern Territory and Tasmania.

Home insurance plays a key role in building resilience and preparedness in communities. IAG also recognises the crucial role governments have in providing a comprehensive and clearly defined regulatory framework that promotes consumer understanding of natural hazard terms, their property's exposure to natural hazards, as well as community resilience.

IAG acknowledges that standardising natural hazard terms in general insurance contracts will assist consumers in understanding and comparing cover. However, we also highlight the proposals in this paper, on their own, will not address all the policy issues highlighted in the consultation paper. We welcome further consultation on the next stages of a broader package of reform.

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<sup>2</sup> [Help Nation: Prepare for Extreme Weather - NRMA Insurance](#)

<sup>3</sup> <https://www.iag.com.au/newsroom/customer/nrma-insurance-rewards-customers-improving-their-household-bushfire-resilience>

<sup>4</sup> [Hazards Insurance Partnership | National Emergency Management Agency \(nema.gov.au\)](#)

<sup>5</sup> <https://www.nrma.com.au/wild-weather-tracker>

IAG supports the views expressed in the Insurance Council of Australia submission and provide the following additional comments in response to the consultation questions:

### **Standard terms**

1. *To what extent is consumer misunderstanding of insurance policies leading to unintentional underinsurance or inappropriate insurance?*

We acknowledge that standardising natural hazard terms is an opportunity to increase consumer understanding. However, the reasons consumers may be impacted by unintentional underinsurance are complex, often involving interconnected factors, that can be different for each customer. These issues should also be considered to address the question holistically. We consider some of these factors in question three of our submission.

2. *What are the consequences of not addressing these issues?*

Insurance assists individuals, communities and businesses recover after a natural disaster. We acknowledge that if these individuals, communities, and businesses are unintentionally underinsured, their ability to recover after a natural disaster may be impaired. IAG is committed to working with the Government to help improve consumer outcomes and welcomes further consultation on Government initiatives to mitigate unintentional underinsurance.

3. *Aside from reviewing standard cover and standardising common terms, what other interventions may increase consumer understanding of insurance cover and reduce underinsurance or inappropriate insurance?*

While there is no single solution to increasing consumer understanding of insurance cover, in addition to standardising the definition of some natural hazard terms in home insurance policies, we propose some additional avenues that could be explored. IAG welcomes further consultation on the below, and any other options being explored by the Government.

### **Standardising the definition of ‘Wear and Tear’ and ‘lack of maintenance’ for home insurance products**

While not a natural hazard term, given the known complexities of wear and tear, maintenance, and related clauses for consumers’ home insurance policies, and for insurers, we also suggest this is added as a priority area.

We acknowledge the work of the Insurance Council of Australia (ICA) to develop a standard definition of ‘*wear and tear*’ in home policies and that this work is being conducted independently of the Government’s work on standard cover and definitions. IAG notes that the success of this process may be limited as any definition standardised at an industry level would require the authorisation of the Australian Competition and Consumer Commission. Given that these clauses are the source of many

consumer complaints, we are of the view that this consultation is an opportunity to progress this work further.

### **Improved access to risk information**

Ideally a national natural hazard database would be created in Australia, where natural hazard risk information and models are aligned across States, local governments, and other sector data. This would enable one 'source of truth' on risk and allow for efficient and aligned decisions about risk across the country. There would also need to be oversight and coordination of this data to ensure it remains relevant, up to date and makes clear to those using it when there is missing information. Clear risk information that is easily accessible can help consumers make better-informed decisions about the level of cover and the amount of cover they want to purchase. Beyond buying insurance, consumers being aware of their risk could also lead to them taking active steps to improve their property's resilience to natural hazards.

Currently, public access to information about a property's risk profile is limited to certain natural hazards and only in certain geographical areas and are not widely known about. In some cases, obtaining information incurs a fee, which can deter or impede consumers from seeking out their risk information.

We strongly support NEMA's steps towards achieving this and commend the creation of the Hazard Insurance Partnership Program as a way of working across sectors to link the risk information held by the government with the risk information held by insurance companies, we are actively working with NEMA on this at the time of this submission.

### **Consumer education**

IAG agrees that a well-informed consumer, can assist with minimising the impacts of unintentional underinsurance. This is why we have implemented a range of educational initiatives to improve consumer awareness of their natural hazard risks (e.g. Help Nation EmergencyRedi™ workshops). To increase effectiveness, we also advocate for education programs to be led and promoted by all levels of government. This is because providing information is only part of the picture. Consumers also need to engage with the information, understand their property's exposure to risk and be able to apply the information to their own circumstances.

- 4. Do you agree with the priority terms that are proposed for standardisation (fire, storm, stormwater, and rainwater run-off)?*

IAG supports the terms proposed being standardised.

- 5. For those terms that are proposed to be standardised, are there any exclusions that you believe should apply?*

Without knowing what shape the standard cover regime will take as the result of the Government's review, it is difficult to provide a list of proposed exclusions. IAG welcomes further opportunities to consult with the Government on how the proposed definitions and exclusions could be designed.

6. *Are there any additional natural hazard terms you think should be standardised?*

IAG advocates for 'storm surge' and 'actions of the sea' to be included in the review of standardised definitions. While we acknowledge that these have not been identified as a priority, we are of the view that a proactive step should be taken to standardise these natural hazards, rather than waiting for the criteria described in the consultation paper to be met. This will also result in a more holistic review of water-based natural hazards.

Pursuing standardised definitions for 'storm surge' and 'actions of the sea' is equally important as defining 'storm', 'rainwater-runoff' and 'flood'. This is because these natural hazards, while recognised by the industry and government to be distinct, are often interconnected and in some areas can occur simultaneously or sequentially, compounding damage caused by severe weather events. In these circumstances, clarity is crucial in insurance policies, to ensure that consumers fully understand what is covered and what is not.

If 'storm' is defined in an insurance policy, but 'storm surge' is not defined, this could lead to consumer confusion if storm surge is excluded from the definition of storm, particularly as storms are a key cause of storm surges. Further, if storm surge is to be defined, our view is that 'actions of the sea' (e.g. high tides, king tides, normal sea waves, normal movement or changes in ocean levels) should also be defined, so that there are clear parameters around what is and is not covered under the definitions of storm surge, flood or storm.

While IAG advocates for including these terms, we do not necessarily advocate for storm surge being included in standard cover. This should be considered and consulted on separately.

**Standard cover**

7. *How well is the current standard cover regime achieving its intended purpose?*

IAG does not see that the current standard cover regime has been successful in achieving the intended purpose of providing a minimum level of consistency in insurance contracts and guarding against a lack of coverage for events commonly expected to be covered. IAG agrees with the Government's assessment that the standard cover regime is having only a very limited impact in practice as insurers can contract out of the prescribed events and minimum amounts by clearly disclosing this in writing. IAG also questions whether consumers are generally aware of the prescribed events or minimum amounts set out in the *Insurance Contracts Regulations 2017*. Given this, we again highlight the importance of a comprehensive consumer education program to inform consumers of any updates made to the regime by the Government.

8. *Which of the three options for intervention would best achieve the intended purpose?*

*Option 1: Repeal the standard cover regime in its entirety.*

*Option 2: Amend the standard cover regime to mandate insurers offer a baseline level of coverable for home building insurance only.; or*

*Option 3: Amend the standard cover regime to mandate vertically differentiated rating system for home building insurance.*

Of the options put forward, IAG believes option two is a possible way forward. Within this option, IAG would be supportive of standardising both the events covered and the definitions of those events. This option has the potential to balance the needs of consumers (to purchase home insurance that covers perils and events that they need and expect i.e. the 'core cover'), while still allowing insurers to innovate above the baseline coverage.

However, proceeding with option two will require careful design to ensure that it does not create unintended pools of total uninsurance. For example, if flood cover is mandated the effect would be that many high flood risk consumers across Australia would have no home insurance cover at all as policies become immediately unaffordable for most in these high risk areas. Further, insurers may withdraw from certain markets or areas, thereby reducing competition. IAG welcomes further consultation on the design of a possible baseline level of cover for home insurance that balances these considerations.

Allowing insurers to innovate above a baseline level of cover is also important for several reasons. As the risk landscape continues to evolve, whether that be by climate change, urban development, or technological advancements, allowing for innovation enables insurers to keep pace with these changes and provide coverage that accurately reflects the current risks. Additionally, consumer expectations of home insurance vary throughout the Australian market. Beyond core coverage, some consumers expect their home insurance policy to cover additional risks and events. IAG would be supportive of reform that continues to allow insurers to design products for all consumers in Australia.

*9. Which of the three options is least likely to achieve intended purpose?*

IAG sees option one as least likely to achieve the intended purpose outlined in the consultation paper. Option one would not materially change the current status quo from the standard cover regime.

*10. Are there any options to amend standard cover not listed above that you believe should be considered?*

Another opportunity could be standardising the sum insured. Presently, there is variation across the industry on what is included in the sum insured amount (e.g. whether it does or does not include removal of debris, professional fees, building back to code). Standardisation would provide greater clarity for consumers. Misunderstanding on what is included in the sum insured amount between different insurers may result in unintentional underinsurance.

11. *Should the standard cover regime be retained for insurance products other than home insurance?*

IAG believes that the current focus should remain on home insurance so that we get the balance right.

We welcome the opportunity to discuss issues raised in this submission, please contact Louise Kerkham, Principal Public Policy and Industry Affairs; [louise.kerkham@iag.com.au](mailto:louise.kerkham@iag.com.au).

Sincerely

A handwritten signature in black ink, appearing to read 'Jane Anderson'.

Jane Anderson  
**Executive General Manager**  
**Corporate Affairs and Sustainability**