7 October 2022

Senate Standing Committee on Finance and Public Administration
PO Box 6100
Parliament House
Canberra ACT 2600

Submitted on via https://www.aph.gov.au/Parliamentary_Business/Committees/OnlineSubmission

Dear Committee Members,

IAG[1] welcomes the opportunity to make a submission to the Inquiry into the **Emergency Response Fund Amendment (Disaster Ready Fund) Bill 2022.**

Our purpose is to make your world a safer place, and we recognise that our role extends beyond transferring risk and paying claims. Our purpose drives our business to collaborate with the community, Government, industry bodies and other organisations to understand, reduce and remove risk, as well as to build resilience and preparedness. This results in better 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 devastation of natural disasters firsthand as we help our customers rebuild and recover after a severe weather event. We are dedicated to helping to prevent this level of loss and distress from occurring again. We have long advocated that mitigation and resilience building is essential for communities to manage the risk to life, property and prosperity posed by natural disasters. It is critical that we learn from the shocking bushfires and floods of the past few years, that we enable those in high-risk areas to understand the risks they face and where possible, take steps now to mitigate those risks to protect these communities ahead of future disasters.

For more than twenty years, IAG has invested in a specialist in-house natural perils team, which has unique expertise in measuring natural disaster risk and understanding options to address high hazard characteristics of buildings and property. Our recent research publications have focused on quantifying the impacts of extreme weather and climate change on risk to property and include Severe Weather in a Changing Climate 2nd edition[2] (in partnership with the US National Center for Atmospheric Research), Future Tropical Cyclone activity along the East Coast of Australia[3] and Regional Sensitivity of Australian Flood Risk to Climate Drivers.[4]

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[1] Australian Business Roundtable for Disaster & Safer Communities (ABR) - IAG is the founding member of the ABR which was formed in December 2012. The Roundtable is helping to develop a more sustainable, coordinated national approach to making communities more resilient and Australian people safer through research and advocacy work. The ABR members are IAG, Australian Red Cross, Munich Re, Optus and Westpac Group. Their research to date has provided economic analysis of natural disasters, the social costs of natural disasters, data needs and infrastructure decision making. Further detail and the five research reports can be found here http://australianbusinessroundtable.com.au/our-research The first ABR research paper3 demonstrated that for every $10 spent on post-disaster recovery, only $1 is spent on measures to improve the safety of our communities prior to disasters. Carefully targeted resilience investments of $250 million per annum have the potential to generate budget savings in the order of $12.2 billion for all levels of government (or $9.8 billion when looking at the Australian Government budget only). If successfully implemented, it could see Australian and state government expenditure on natural disaster response fall by more than 50% by 20504.

[2] Available at https://www.iag.com.au/severe-weather-changing-climate

[3] https://reader.elsevier.com/reader/sd/pii/S221209472200086X?token=616DE710E17A7BFD8C7C86A9F57FA98137E6E3D54ADA648F1FD6AFFCC82902FC89BA86297CAB3ABBA58B67FFE05345F2&originRegion=us-east-1&originCreation=20220929033522

[4] Available at https://www.floods.org.au/client_images/2128563.pdf

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IAG is also the founding member of the Australian Business Roundtable for Disaster & Safer Communities (ABR). Formed in 2012, the ABR commissioned research to make the sound economic and social case for investing in mitigation and resilience building. The first report[5] ***Building our Nation's Resilience to Natural Disasters*** demonstrated that for every $10 spent on post-disaster recovery, only $1 is spent on measures to improve the safety of our communities prior to disasters. It also highlighted that carefully targeted resilience investments of $250 million per annum have the potential to generate budget savings in the order of $12.2 billion for all levels of government (or $9.8 billion when looking at the Australian Government budget only). If successfully implemented, it could see Australian and State Government expenditure on natural disaster response fall by more than 50% by 2050. In addition to the economic case for investing in mitigation, the five ABR reports provide insights into the social costs of natural disasters, data needs and infrastructure decision making. Further detail and the five research reports can be found here:
http://australianbusinessroundtable.com.au/our-research

We support this legislation and applaud the government for recognising the importance of ongoing funding to build natural disaster resilience. We commend the Government's $200 million per year commitment, acknowledging this level of funding was a key recommendation of the Productivity Commission's 2015 Natural Disaster Funding Arrangements report[6]. We also commend the Government's creation of the new National Emergency Management Agency, and the establishment of a Special Envoy for Disaster Recovery. We provide the following comments on the operation of the Disaster Ready Fund for the Standing Committee's consideration.

1. A transparent process for the prioritisation and allocation of this funding must be created

Australia is a large county with many communities affected by disasters. In order for this funding to have the best impact and reduce expenditure on post natural disaster recovery, there needs to be a clear process for prioritising and allocating these funds, including.

a. **An expert advisory panel should be part of this process –** Natural disaster resilience and mitigation crosses a range of industries and expertise. Although government has a clear coordination role, the decisions on how this funding is allocated will have a substantial impact on business and the not-for-profit sectors. We believe any process for prioritsing and allocating the Disaster Ready Fund must include consultation with an expert advisory group, made up of business, not for profit and academics with expertise in disaster resilience.

b. **The Insurance industry must be part of this process and any expert advisory group –** Insurers are experts in natural hazard risk modelling and assessment and have specific knowledge on the financial risks and impacts of natural hazards. Insurance pricing also reflects the financial risk people are exposed to and the broader financial impact of disasters that needs to be considered when looking to model risk, and how to mitigate or adapt to it. Engaging with the insurance sector adds to the picture of acceptable risk. Our involvement in a process for prioritising and allocating funding allows the government and private sector to align how we identify risk, plan mitigation and reward resilience.

c. **Government must also invest in a national hazard database –** The first step to making an informed decision on prioritising and allocating these funds is to have a national data base of natural disaster risk, where risk information and models for all-natural disaster risk are aligned across States and Industries. This would enable one 'source of truth' on natural disaster risk, allowing for efficient and aligned decisions about mitigation spending. There would also need to

[5] http://australianbusinessroundtable.com.au/our-research
[6] https://www.pc.gov.au/inquiries/completed/disaster-funding/report

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.

d. **The fund is used primarily for mitigation that protects homes, businesses, and communities** – we suggest that roads, rail, bridges, and other similar infrastructure built or repaired to withstand natural disasters are not funded from this legislative provision as there are other funding sources for this. We suggest the primary use of this fund should be for mitigation that leads to safer homes, businesses, and communities.

e. **Consider existing collaborations such as the Resilience Valuation Initiative (RVI) –** The RVI is an existing coalition of organisations seeking to advance an accepted process for understanding the value of a resilience-building asset, network, feature, or activity. It was established by the Australian Business Roundtable for Disaster Resilience & Safer Communities and is made up of a number of organisations from the private sector, government, not for profit and the research community. IAG is an active member in this ongoing initiative and recommends the RVI's work feeds into any process or framework for prioritising and allocating these funds. Further information can be found here: http://resiliencevaluation.com.au/

2. Commitment to ongoing funding

Mitigation and minimising natural disaster risk across Australia is not a one-off funding need. In order to prepare all communities across Australia for the risks they face now and into the future, there will be ongoing need for mitigation and resilience funding. We recommend the Government make a commitment to fund $200 million a year for a rolling 10-year program. We also suggest that Government makes it clear that any unused funds should be available for use in the next financial year. This flexibility in funding will allow for multiple projects to be completed and allow funding for large projects with longer time horizons.

3. Land use planning and building codes must simultaneously be reformed

*"Land use planning and building regulation are mechanisms for managing **exposure** and **vulnerability** to natural disaster risk. Land use planning governs **where** built assets, and the people that live in and use them, can be located. Land use planning is an important influence on **exposure** of communities to natural hazards. Building regulations determine **how** built assets can be constructed and so affects the **vulnerability** of communities to natural disasters"* [7]

This fund is to help communities mitigate the risks they face and to build resilience; however, it is just as important that land planning and building codes are reviewed and reformed to ensure no more homes and communities are built in harm's way. In addition, buildings built now must be required to consider the natural disaster risks they face now and into the future. If this is not addressed at the same time we fund mitigation, then the savings achieved by mitigating one community could be eroded by a new or emerging risk in another community.

4. Mitigation is also considering what, how and if we choose to build in high-risk locations

The Royal Commission into Natural Disaster Arrangements report advises that in general: *"Australians have a high capacity for disaster resilience across south eastern areas of Australia and around*

[7] Natural Disasters Royal Commission https://naturaldisaster.royalcommission.gov.au/system/files/2020-07/opening-statement-land-use-planning-and-the-built-environment-8-July-2020.docx

metropolitan and major regional centres." However as *"the disaster risk increases the capacity of communities and systems to be resilient is diminished."*[8]

IAG has long advocated that reducing natural disaster risk is the best way to prevent communities experiencing an endless cycle of flood disaster, recovery and rebuild. But we must also acknowledge that there is a point at which the natural disaster risk is so great that communities have limited ability to prepare for or recover from the impact of the disaster. We believe insurance affordability is one key indicator of whether the risk for communities is acceptable or not. Communities, Councils, State and Federal governments must now work together with the private sector to understand where and what types of buildings are at a risk level that exceeds the community's capacity to prepare for and mitigate against the natural disaster risk. The Disaster Ready Fund should consider using funds for a managed retreat when this is the best mitigation option.

However, we acknowledge that managed retreat especially in extreme flood areas can be a difficult, emotional and divisive issue for communities. We acknowledge that the decision to consider managed retreat as an option needs to be place based and community led, each community must assess the economic and social costs of relocation for both the relocated people and the remaining community. We understand this approach has worked well in the joint federal and QLD government funded Resilient Homes Fund.

IAG has commissioned research to explore the costs and benefits of managed retreat in flood risk communities. We would be happy to share this research with the Committee when it is completed.

5. Additional IAG research

In addition to the ABR research, IAG has commissioned the following research that adds to the collective understanding of natural disaster risk and mitigation for the Committee's consideration. Specifically, the Rhelm report into National Flood Hazard Mitigation priorities details methodologies and insights into how mitigation funding can be prioritised.

a) Rhelm report – National Flood Hazard Mitigation Priorities

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.

[8] https://naturaldisaster.royalcommission.gov.au/publications/html-report/chapter-02

b) The Menzies Research Centre Report - *Strengthening Resilience: Managing Natural Disasters*

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.

c) SGS Economics & Planning Report - The *backbone of regional and rural economies: small business and community resilience*

IAG commissioned the report to explore the impact of natural disasters on small businesses, regional communities and the role insurance plays in economic recovery. The key findings from this report are:

1. For households and businesses to acquire an adequate level of insurance, they need to have a comprehensive understanding of the risks they face in relation to their individual circumstances. For small businesses this is especially important as they often do not have the means to withstand periods of reduced customers or staff unavailability.
2. Small businesses are often un- or under-insured, and are not always aware of their risk exposure, particularly that the costs of business interruption may be as high or even higher than the direct damages.
3. There is a pressing need to increase investment in risk mitigation for small regional businesses to prevent damages and interruption, which has a flow on effect to the economic prosperity of regional and rural towns.
4. For the two case studies explored (Townsville floods and Black Summer bushfires) on average, between 65% and 72% of total economic impact from the floods and bushfires is attributed to small businesses.
5. Without insurance, it is possible that economies, and especially those in regional and remote areas, may never fully recover from a natural disaster, as damage leads in some cases to a permanently impaired productive capacity in the long term.
6. With a changing climate and growing population, more Australian communities are being exposed to more intense and more frequent extreme weather events. Insurance plays a vital role but investing in preparedness is essential.

d) SGS Economics & Planning report – At what cost? Mapping where natural perils impact economic growth and communities

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.

This work has identified areas of key economic importance which are at risk:

- Local Government Areas (LGA) with high, very high and extreme risk of bushfire generated $175 billion (10.8%) worth of GDP and were home to 2.2 million people
- $326.6 billion worth of GDP (20.3 per cent of the economy) and 3.9 million people (17.3 per cent of the population) were in areas with a high to extreme risk of cyclone.
- Recent cyclones have already significantly impacted on mineral and agricultural production. 28.4 per cent of GDP and 24.9 per cent of the population live in LGAs at high to extreme risk of flood. Flood events in Queensland in 2011 were highly disruptive to economic activity and highlighted how a community's economic capacity impacts its ability to respond and rebuild following natural disasters.

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

IAG welcomes the opportunity to provide this submission to the Senate Standing Committee on Finance and Public Administration's Inquiry into the Emergency Response Fund Amendment (Disaster Ready Fund) Bill 2022. We would be delighted to discuss the issues raised in this submission in more detail. Please contact Naomi Graham, Principal Public Policy, and Industry Affairs at naomi.graham@iag.com.au.

Sincerely

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