

The Senate

Select Committee on the Impact of
Climate Risk on Insurance
Premiums and Availability

Impact of Climate Risk on Insurance
Premiums and Availability

November 2024

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Chair's Foreword

Throughout this inquiry, the committee heard directly from affected communities about the impacts of climate-driven disasters on their lives and livelihoods. Through their stories of loss, pain and persistence, the committee was able to piece together a picture of the insurance experience in Australia prior to, during and after these disasters.

For many who continue to seek an insurance payout, the insurance experience has proven to be more traumatic than the disaster itself. For others, the experience has been one of prolonged and complex claims compounded by rising construction costs and insurance barriers to resilient reconstruction. For a third and particularly vulnerable cohort, insurance is either cost prohibitive or simply unavailable due to the location of dwellings in a high-risk area.

The challenges brought about by the increasing frequency of climate-driven disasters in Australia are numerous. The first and most immediate issue is that of the unaffordability and unavailability of insurance, particularly in high-risk areas. However, the committee also recognises that these disasters can no longer be seen as one-off, isolated events as they continue to grow in frequency and intensity due to exacerbating climate risk. At the same time, insurance premiums cannot continue to rise unchecked and out of the reach of a growing number of people. Reform is needed to address both climate-driven disasters and insurance to ensure that the disaster insurance gap does not continue to grow.

For most people in disaster-impacted communities and beyond, insurance is opaque, complicated, and difficult to understand. At the same time, rises in premiums are not explained to the consumer, making it impossible to understand the rationale for jumps in price or what measures to take to counter the rising cost. This means that disaster resilience and mitigation measures on homes and communities are not factored into the price of premiums and, as a growing number of people cannot afford insurance, the cost of climate-driven disasters will continue to mount.

Throughout the inquiry, the committee received evidence of suggested solutions to address these challenges which range from modest calls for greater information sharing across governments to substantial reforms to the insurance industry and greater investment in resilience and mitigation measures, including through polluter-pay models to ensure that coal and gas companies pay for the damage they cause. These solutions aim to share some of the burden of the increasing cost of insurance so that it does not fall solely on the policy holder.

In sifting through the evidence, the committee has sought to address the key aspects of these challenges by way of a series of recommendations which, taken together, seek to address the immediate challenges with climate risk leading to insurance unaffordability, while providing longer-term solutions for communities.

In the words of Mrs Sandra Gilbert, who provided evidence to the committee in Ballina, NSW on behalf of the Tweed Residential Park Homeowners Association, these recommendations seek to provide 'hope, honesty and transparency'.

Senator Mehreen Faruqi
Chair

List of recommendations

Recommendation 1

6.10 The committee recommends that the Australian Climate Service and the National Emergency Management Agency work with all levels of government and industry to establish and maintain a national disaster risk map and database, covering all types of natural disasters in Australia, which is accessible to the public.

Recommendation 2

6.14 The committee recommends that insurance companies in Australia be required to provide policyholders with a sufficient breakdown and explanation of insurance premium costs, including details of price changes in response to resilience and disaster mitigation measures undertaken by the policyholder.

Recommendation 3

6.18 The committee recommends that the Treasurer issue a Ministerial Direction to require the Australian Competition and Consumer Commission to monitor premium prices across Australia and to publish its monitoring reports on a quarterly basis on its website.

Recommendation 4

6.23 The committee recommends that the Australian Government pursue the abolition of general taxes on insurance through the Housing and Homelessness Ministerial Council and other relevant ministerial council arrangements.

Recommendation 5

6.26 The committee recommends that Treasury expand the Cyclone Reinsurance Pool to cover all natural disasters. The expansion should:

- take account of lessons learned from the operationalisation of the current pool; and
- incorporate incentives for participating insurance companies to invest in disaster mitigation and resilience measures.

Recommendation 6

6.30 The committee recommends that the Australian Government increase the Disaster Ready Fund to \$400 million per annum for investment in disaster mitigation and resilience measures.

Recommendation 7

6.34 The committee recommends that the Australian Government pursue the matter of land use and planning laws, including the feasibility of prohibiting future development in high-risk areas, through the Housing and Homelessness Ministerial Council and other relevant ministerial council arrangements.

Recommendation 8

6.38 The committee recommends that Treasury develop options for a levy on coal and gas extraction companies, based on the annual energy content they have extracted, from which the funds raised would be invested in disaster mitigation and resilience measures, and the cost of rising insurance.

Chapter 1

Introduction

- 1.1 On 16 May 2024, the Senate resolved that the Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability be established to inquire into and report on:
 - (a) the unaffordability of insurance in some regions due to climate-driven disasters;
 - (b) the unavailability of insurance for some people due to climate-driven disasters;
 - (c) the underlying causes and impacts of increases in insurance premiums;
 - (d) the extent to which increased climate risk is being priced into insurance products not exposed to climate-driven risks;
 - (e) the distributional impact of increases in insurance premiums across communities, demographics and regions;
 - (f) the role of governments to implement climate adaptation and resilience measures to reduce risks and the cost of insurance;
 - (g) how the pricing of risk from climate-driven disasters can be better redistributed across the economy; and
 - (h) any other related matters.
- 1.2 The committee was required to report by 19 November 2024. On 19 November 2024, the Senate agreed to extend the reporting date to 26 November 2024.
- 1.3 Details of the inquiry were made available on the committee's webpage and the committee invited government departments and agencies, organisations and individuals to provide submissions.
- 1.4 The committee received 56 public submissions which are listed at Appendix 1 of this report, and held the following public hearings:
 - 8 August 2024, in Ballina
 - 9 August 2024, in Brisbane
 - 20 September 2024, in Sydney
 - 30 September 2024, in Melbourne
 - 1 October 2024, in Canberra
 - 9 October 2024, in Canberra.
- 1.5 A list of the organisations and individuals who attended as witnesses at these public hearings can be found in Appendix 2. The public submissions, additional

information received by the committee and Hansard transcripts are available on the committee's website.¹

Approach to the inquiry

- 1.6 In conducting this inquiry, the committee set out to understand the experiences of communities directly affected by climate-driven disasters with insurance.
- 1.7 The committee held its first public hearing in Ballina, in the Northern Rivers region of New South Wales, where it heard from people in Ballina, Lismore, Tweed Heads and surrounding areas, who were impacted by the devastating Northern Rivers floods in 2022.
- 1.8 The committee heard about the shattering impacts that the disaster had on individuals and the broader community, as well as many stories of bravery, generosity and hope.
- 1.9 It also heard about the importance of insurance in disaster recovery, and the impact on people when they do not have access to the benefits of prompt and sufficient insurance cover. Concerningly, the committee heard that many of the impacts stemming from the floods continue to be felt to this day, with insurance claims still to be finalised, and housing and infrastructure still waiting to be repaired.
- 1.10 Soon after commencing the inquiry, it became apparent to the committee that the issue of increasing insurance costs is a complex one, involving climate risk and factors present in the Australian insurance market that need to be addressed.
- 1.11 After hearing from local governments, consumer groups, legal services, researchers, expert bodies and insurance companies around the country, the committee was able to gain a more fulsome understanding of growing climate risk, and other challenges contributing to increasing costs of insurance, as well as possible solutions to these issues.

Report structure

- 1.12 This report is set out in four sections. The first part (comprising chapters 2 and 3), explores the impact of increasing natural disasters and the rising cost of insurance on individuals and the community.
- 1.13 The second part (comprising chapter 4) considers the challenges within the Australian insurance industry, which are contributing to the rising cost and unavailability of insurance in some regions.

¹ Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability, *Inquiry on Impact of Climate Risk on Insurance Premiums and Availability*, aph.gov.au/Parliamentary_Business/Committees/Senate/Impact_of_Climate_Risk_on_Insurance (accessed 18 October 2024).

- 1.14 The third section (comprising chapter 5) sets out a range of solutions that were proposed by submitters to target insurance affordability and availability, noting that a multifaceted approach is needed to address this complex issue.
- 1.15 The last section (comprising chapter 6) contains the committee's views and recommendation to target the concerns brought to its attention.

Notes on references

- 1.16 References to the Committee Hansard may be references to a proof transcript. Page numbers may differ between proof and official transcripts.

Acknowledgements

- 1.17 The committee sincerely thanks all those who have contributed to the inquiry by making submissions, providing additional information, and appearing at public hearings.
- 1.18 In particular, the committee wishes to acknowledge the individuals who bravely shared their stories, amidst their grief and trauma, following climate-driven disasters. We thank them for their role in shaping this inquiry and we hope that implementation of the committee's recommendations will go some way to addressing the challenges they have faced in the aftermath of natural disasters in this country.

Chapter 2

Impact of climate change and more frequent and severe natural disasters

- 2.1 Throughout this inquiry, evidence to the committee highlighted that climate change is contributing to the increasing severity and frequency of natural disasters in Australia.
- 2.2 This chapter will consider the rise of natural disasters and extreme weather events in Australia, which are being exacerbated by climate change, and the impact of these disasters on communities all over the country. This includes the impact on individuals, including their physical and mental health, as well as local communities, critical infrastructure and housing.

Rise of natural disasters and extreme weather events

- 2.3 Mr Andrew Minack, First Assistant Coordinator-General, Policy and Governance, National Emergency Management Agency (NEMA) told the committee that:

It is accepted science that the frequency, intensity and complexity of storms, floods, fires, tropical cyclones and heatwaves are accelerating due to climate change and threatening the wellbeing and security of communities across our nation. National scale crises are becoming annual occurrences.¹

- 2.4 The *State of the Climate Report 2024* (State of the Climate Report), co-developed by the CSIRO and the Bureau of Meteorology (the Bureau), warns of continued extreme changes in weather and climate in Australia, including extreme heat, heavy rainfall, coastal inundation, fire and drought, occurring at an increased pace.² The authors observed that:

... changes in the weather and climate are happening at an increasing pace; the past decade has seen record-breaking extremes contributing to natural disasters that are exacerbated by anthropogenic (human-caused) climate change, including 'compound events', where multiple hazards and/or drivers occur together or in a close sequence, which intensifies their impacts.³

¹ Mr Andrew Minack, First Assistant Coordinator-General, Policy and Governance, National Emergency Management Agency, *Proof Committee Hansard*, 1 October 2024, p. 1.

² Bureau of Meteorology, *State of the Climate 2024*, November 2022, p. 2, [bom.gov.au/state-of-the-climate/2024/documents/2024-state-of-the-climate.pdf](https://www.bom.gov.au/state-of-the-climate/2024/documents/2024-state-of-the-climate.pdf) (accessed 5 November 2024).

³ Bureau of Meteorology, *State of the Climate 2022*, November 2024, p. 2.

- 2.5 The State of the Climate Report further stated that Australia’s climate has warmed by an average of 1.51 ± 0.23 °C since national records began in 1910.⁴
- 2.6 Looking ahead, the State of the Climate Report projects that in the coming decades, Australia will experience ongoing changes to its weather and climate, including:
- rising air temperatures, more heat extremes and fewer cold extremes;
 - continued decrease, on average, in cool season rainfall across many regions of southern and eastern Australia, which will likely lead to longer droughts, but with ongoing climate variability that will give rise to short-duration heavy-rainfall events;
 - continued increase in the number of dangerous fire weather days and a longer fire season for southern and eastern Australia;
 - further sea level rise and continued warming and acidification of the oceans around Australia;
 - increased and longer-lasting marine heatwaves that will affect marine environments, such as kelp forests;
 - frequent and severe bleaching events in coral reefs around Australia, including the Great Barrier Reef and Ningaloo Reef; and
 - fewer tropical cyclones, but with high intensity, with large variations from year to year.⁵
- 2.7 The Australian National University’s Institute for Climate, Energy and Disaster Solutions (the Institute) submitted that ‘climate change is driving more intense and frequent extreme weather events’, particularly impacting Australians living in areas exposed to riverine flooding, sea level rise, coastal erosion, cyclones, bushfires and extreme heat.⁶
- 2.8 The Institute highlighted the complexity and compounding nature of climate risk in Australia, noting that ‘multiple climate hazards will occur simultaneously, and multiple climatic and non-climatic risks will interact.’⁷

⁴ Bureau of Meteorology, *State of the Climate 2024*, November 2022, p. 2.

⁵ Bureau of Meteorology, *State of the Climate 2024*, November 2022, p. 3.

⁶ Australian National University Institute for Climate, Energy and Disaster Solutions, *Submission 30*, p. 5.

⁷ Australian National University Institute for Climate, Energy and Disaster Solutions, *Submission 30*, p. 6.

- 2.9 Research from the Parliamentary Library indicates that while Australia has always experienced natural disasters, recent extreme weather events are cause for concern due to their severity, frequency and cost to the nation.⁸
- 2.10 For example, in 2019-20, in the hottest and driest year on record (at the time), Australia experienced the unprecedented Black Summer Bushfires where:
- 33 individuals died;
 - over 3,000 homes were destroyed;
 - over 24 million hectares were burned; and
 - the overall cost to the Australian economy was estimated at \$10 billion.⁹
- 2.11 In 2022, the people of the Northern Rivers region experienced the costliest climate driven disaster in Australia's history. Large areas of coastal and North-East New South Wales and South-East Queensland experienced record rainfall, leading to flash flooding and thousands of Australians in need of rescue.¹⁰ Tragically, more than 20 people died during these flooding events, and thousands of homes and critical infrastructure were destroyed or severely damaged after being inundated. The Insurance Council of Australia estimated total damages from the floods to be \$3.5 billion in insured losses.¹¹
- 2.12 The Climate Council's 2022 report, *Uninsurable Nation: Australia's most climate-vulnerable places*, identifies the ten most at risk federal electorates to climate extremes by 2030.¹² As shown in Figure 2.1 below, these electorates span across New South Wales, Queensland, Victoria and South Australia, and encompass numerous hazards, including riverine and surface water flooding, bushfire, coastal inundation and extreme wind. The Climate Council further identified that riverine flooding poses the most significant risk to properties, finding that of the properties classified as 'high risk' by 2030, 80 per cent of that risk is due to riverine flooding.¹³

⁸ Tessa Satherley and Dr Daniel May, *Natural disasters and climate risk, Parliamentary Library Briefing Book: Key Issues for the 47th Parliament, June 2022*, p. 22.

⁹ Tessa Satherley and Dr Daniel May, *Natural disasters and climate risk, Parliamentary Library Briefing Book: Key Issues for the 47th Parliament, June 2022*, pp. 22–23.

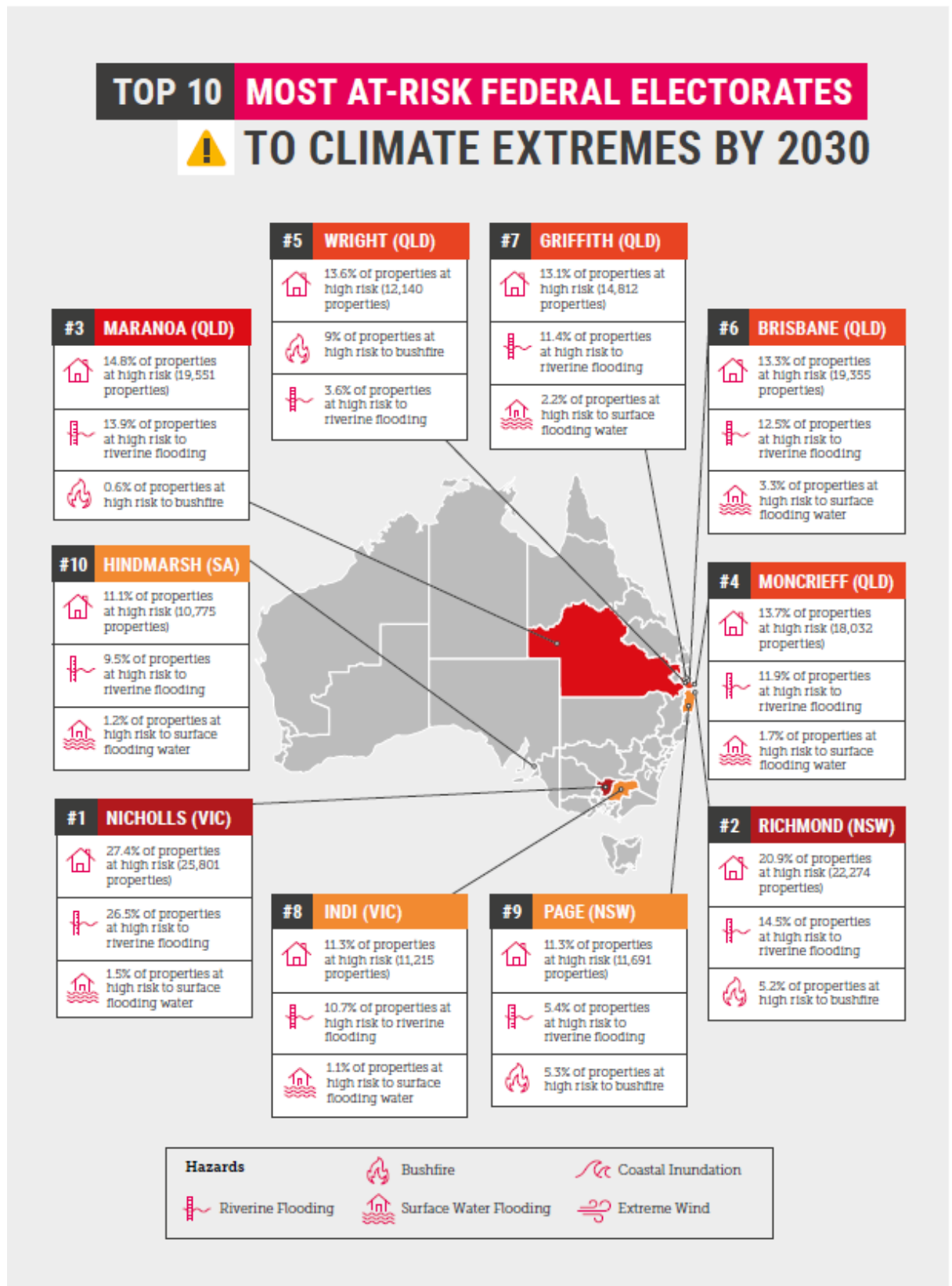
¹⁰ Tessa Satherley and Dr Daniel May, *Natural disasters and climate risk, Parliamentary Library Briefing Book: Key Issues for the 47th Parliament, June 2022*, pp. 22–23.

¹¹ Tessa Satherley and Dr Daniel May, *Natural disasters and climate risk, Parliamentary Library Briefing Book: Key Issues for the 47th Parliament, June 2022*, pp. 22–23.

¹² Climate Council, *Uninsurable Nation: Australia's most climate-vulnerable places*, May 2022, p. 10, climatecouncil.org.au/wp-content/uploads/2022/05/CC_Report-Uninsurable-Nation_V5-FA_Low_Res_Single.pdf (accessed 5 November 2024).

¹³ Climate Council, *Uninsurable Nation: Australia's most climate-vulnerable places*, May 2022, p. 10.

Figure 2.1 Top 10 most at-risk federal electorates to climate extremes by 2030



Source: Climate Council, *Uninsurable Nation: Australia's most climate-vulnerable places*, May 2022.

2.13 As at November 2024, 30 disasters had been declared since the beginning of 2024.¹⁴ These include the following disasters:

- Clarence Valley bushfire (NSW)
- Tropical Cyclone Kirrily and associated rainfall and flooding (QLD)
- Ex-Tropical Cyclone Lincoln and associated flooding (WA)
- Severe storm event on the east coast of Tasmania (TAS)
- Tropical low 09U Cyclone Megan (NT)
- Tropical low and associated flooding in East Pilbara (WA)
- Western Queensland rainfall and flooding (QLD)
- Yarra Ranges floods (VIC)
- NSW east coast flooding (NSW)
- Bunbury storm and tornado (WA)
- North-east Victorian earthquake (VIC).¹⁵

2.14 Noting the growing number of severe climate-driven disasters, Professor Paula Jarzabkowski emphasised the importance of doing ‘all we can’ to address the climate crisis in terms of ‘preventing further warming and further input into extreme weather.’ However, she warned that:

...even if we were to do that instantly, some of what we have done is already there, because we can't reverse what we have done at any speed. We also, as I pointed out, have these legacy assets and the way that we have built, which exacerbate things like flash flooding, urban flooding and so forth. I believe that we definitely need to try and stop the climate crisis, but that in itself won't be sufficient to change the problem that we're facing. We then still would need to do adaptation to what we already have.¹⁶

Impact of increasingly severe and frequent natural disasters

2.15 The Actuaries Institute told the committee that:

Increasing extreme weather events are already causing severe hardship and disruption to our communities. There will always be some uncertainty about how risks will manifest in specific areas or how they might compound in the future. However, it is clear that the overall impact of climate change is projected to become more severe.¹⁷

2.16 Noting the rise in the severity and frequency of natural disasters due to climate change, the committee considered the human and community impacts in

¹⁴ Department of Home Affairs, *Australian disasters*, disasterassist.gov.au/find-a-disaster/australian-disasters (accessed 5 November 2024).

¹⁵ Department of Home Affairs, *Australian disasters*, disasterassist.gov.au/find-a-disaster/australian-disasters (accessed 5 November 2024).

¹⁶ Professor Paula Jarzabkowski, Professor of Strategic Management, University of Queensland, *Proof Committee Hansard*, 30 September 2024, p. 21.

¹⁷ Ms Elayne Grace, Chief Executive Officer, Actuaries Institute, *Proof Committee Hansard*, 20 September 2024, p. 19.

disaster affected regions. Many submitters and witnesses described to the committee the personal impact such disasters have had on their lives. People and communities have suffered trauma, long-term health problems, financial distress and challenges with employment and securing safe housing. Entire committees have faced serious challenges with disasters, impacting local businesses and infrastructure

- 2.17 Mr Paul Hoye, Acting Chief Executive Officer of the Douglas Shire Council, told the committee that following Tropical Cyclone Jasper, which caused ‘severe destruction to homes, businesses, properties and vehicles’:

Residents have suffered tremendous trauma from the disaster, losing homes, pets and livestock. The stories of survival are quite heart-wrenching. Council infrastructure has been severely damaged from loss of roads and bridges and damage and loss of water supply infrastructure. Communities were isolated for weeks and in some cases months. Towns including Port Douglas were without water on numerous occasions, sometimes for three or four days. Significant damage and access issues have affected tourism locations and the shire has suffered reputational damage. The ongoing impacts of long-term displacement of people and families, uninhabitable homes and loss of income and livelihoods continue to be the focus of our recovery efforts, and this will continue for many years.¹⁸

Impact on physical and mental health

- 2.18 The committee heard that natural disasters and extreme weather events can have severe and continuing impacts on physical and mental health, as described by Mr Hoye:

We know we can fix our roads and our water infrastructure, but repairing the social trauma and mental health impact is a much longer journey.¹⁹

- 2.19 This sentiment was echoed by many other witnesses who shared their personal stories with the committee, while other submitters divulged that they have developed Post Traumatic Stress Disorder (PTSD) following flooding events.²⁰ As Ms Jan Praetzi explained, ‘the impact of a disaster stays with you.’ Describing events following the 2022 Northern Rivers floods, she said:

I also suffer from PTSD when it rains now. I’m very fearful. If it rains heavily I’m sort of on full alert as a result of that flood’.²¹

¹⁸ Mr Paul Hoye, Acting Chief Executive Officer, Douglas Shire Council, *Proof Committee Hansard*, 9 August 2024, p. 9.

¹⁹ Mr Paul Hoye, Acting Chief Executive Officer, Douglas Shire Council, *Proof Committee Hansard*, 9 August 2024, p. 9.

²⁰ See, for example, Ms Noelle Maxwell, private capacity, *Proof Committee Hansard*, 8 August 2024, p. 19.

²¹ Ms Jan Praetz, private capacity, *Proof Committee Hansard*, 8 August 2024, p. 17.

2.20 Ms Madeleine Serle, speaking about her experience living through the Maribyrnong floods in Victoria, told the committee:

... the Maribyrnong floods—goodness knows how many cubic metres of water flowed through my house. I still have that visceral feeling. I can bring it up in myself right now. A stinking, stinking mud—I call it 'zombie mud' because you put any moisture near it and it's instantly back together again.

The grief I have felt, and the grief I share—I'm almost a trustee of grief in my role in MCRA—is a way of facing up to the very personal fear, the existential fear, of climate change in my own home and in my community's own homes.²²

2.21 Mr Steve Krieg, Mayor of Lismore City Council, expressed that 'as a local government, it is a massive challenge just to maintain the mental health of our population. It is such a deep wound that has been opened up in 2022.'²³

2.22 The Northern Rivers based Community Disaster Action Group (CDAG) submitted:

The mental health toll on the community has been immense. Support services are overwhelmed, dealing with widespread trauma, anxiety, and depression stemming from both the initial disaster and the prolonged, stressful recovery process.

This is not just a crisis of individual households, but a fundamental threat to the sustainability, viability and resilience of entire communities across the Northern Rivers and potentially, in the future, across Australia.²⁴

2.23 The CHOICE *Weathering the Storm: Insurance in a changing climate report* (2023) gave insights into the lives of families who had been affected by natural disaster:

"We live with PTSD - if we smell smoke we're on the defensive. The kids with what they have been through at that age, all have anxiety."

"My daughter has anxiety, every time it rains, [she asks] 'is it going to flood?', every time she packs her things to go to her other parent's she has an outburst of emotion about what to bring, [she is] very hard on herself. I need a sense of place and safety — I don't necessarily feel that way."

"My tolerance has gone after 3 floods, so has my marriage - it exacerbates what's underlying [including my] kids' mental health — we needed to move to give them stability. I'd never buy in a flood prone area again — when you go through it, it's traumatic. It takes a mental toll."²⁵

²² Ms Madeleine Serle, President, Maribyrnong Community Recovery Association, *Proof Committee Hansard*, 30 September 2024, p. 5.

²³ Mr Steve Krieg, Mayor, Lismore City Council, *Proof Committee Hansard*, 8 August 2024, p. 4.

²⁴ Community Disaster Action Group, *Submission 50*, p. 4.

²⁵ CHOICE, *Weathering the storm: insurance in a climate crisis*, August 2023, p. 5, choice.com.au/consumer-advocacy/policy/policy-submissions/2023/august/climate-insurance-report (accessed 5 November 2024).

2.24 The Australian Business Roundtable for Disaster Resilience and Safer Communities found that the residents of Brisbane whose homes were directly affected by the 2010–11 Queensland floods were:

- 5.3 times more likely to report poorer health than those not affected by the floods;
- 2.3 times more likely to report respiratory issues;
- 1.9 times more likely to report psychological distress;
- 2.3 times more likely to report poor sleep quality; and
- 2.3 times more likely to have probable post-traumatic stress disorder (PTSD).

2.25 These statistics are extremely concerning, not only in relation to the serious health impacts they describe, but also in relation to the flow on effects that they will undoubtedly have on local health systems and overall community wellbeing.

2.26 It should also be noted that experiences with insurance companies often added to the trauma faced. In fact, some witnesses described their experience with insurance companies as more traumatic than the disaster itself. Ms Noelle Maxwell described the PTSD that she now suffers, after dealing with the issue of insurance following the Northern Rivers floods, advising:

I'd like to speak to the PTSD that I now suffer as a result of my insurance experience, one that I didn't even know I had until last week when I received a letter in the post cancelling my policy because one of my auto payments didn't go through. I had corrected this and paid, but it didn't register so they cancelled my policy. That required me to phone them, something that I had stopped doing after the first year as I just couldn't stomach it. When I made the call, I was unable to think clearly or to respond to the word prompts. I actually became physically ill listening to the hold music. I burst into tears when they answered the phone and I couldn't talk for a while. My friend said I was hyperventilating, and I thought my heart was racing and I felt dizzy. Later, I remembered that I'd twice been hospitalised for a hypertensive crisis after my previous calls to my insurance company.²⁶

Impact on housing and the displacement of people

2.27 Not only can natural disasters severely damage properties and the surrounding infrastructure, but the committee heard that the repairing and rebuilding stage also poses as a significant challenge, given the costs, materials and human labour required. In some communities, these costs have been prohibitive with communities going without basic school, health and road infrastructure for long periods of time.

2.28 The *Too Close to Home: How do we keep communities safe from escalating climate impacts* report by the Emergency Leaders for Climate Action and the Climate

²⁶ Ms Noelle Maxwell, private capacity, *Proof Committee Hansard*, 8 August 2024, p. 19.

Council found that Australians have been forced to move almost a quarter of a million times in recent years due to climate-related disasters, with certain communities becoming ‘calamity hotspots’.²⁷ They reported that between 2008–2009 to 2022–2023 there were 240,828 displacements—or forced movements—across Australia due to extreme weather events. Two thirds of these occurred between 2018–2019 to 2022–2023.²⁸ These include:

- of 95,239 displacements as a result of fires, 68 per cent of these were due to the unprecedented Black Summer bushfires.
- of 85,690 displacements due to flooding, 68 per cent were due to the 2020-22 flooding disasters in Queensland, New South Wales and Victoria.
- of the 59,826 displacements due to storms, 79 per cent are attributed to tropical cyclones Debbie (2017), Yasi (2011) and Oswald (2013).²⁹

2.29 Chels Hood Withey, President of the Community Disaster Action Group (CDAG), stressed that many people are simply leaving the Northern Rivers region as a consequence of the 2022 floods as they can no longer afford to insure their homes, and renting or buying a home has become much more expensive.³⁰ Further, the CDAG submitted:

Entire streets in towns remain empty, with residents unable to return due to inadequate insurance payouts or delays or ineligibility for government assistance. Community centres, schools, and local businesses- the backbone of the social fabric- are still struggling to rebuild.³¹

2.30 The committee also heard that tenants living in disaster damaged properties are often asked to move out while essential repairs are undertaken, but then the property is placed back on the rental market at a much higher price, due to the current housing crisis.³²

²⁷ Emergency Leaders for Climate Action and the Climate Council of Australia, *Too Close to Home: How do we keep communities safe from escalating climate impacts*, p. 1, climatecouncil.org.au/wp-content/uploads/2024/06/Too-Close-to-Home_ELCA-and-Climate-Council-report.pdf (accessed 5 November 2024).

²⁸ Emergency Leaders for Climate Action and the Climate Council of Australia, *Too Close to Home: How do we keep communities safe from escalating climate impacts*, p. 1.

²⁹ Emergency Leaders for Climate Action and the Climate Council of Australia, *Too Close to Home: How do we keep communities safe from escalating climate impacts*, p. 1.

³⁰ Chels Hood Withey, President, Community Disaster Action Group, *Proof Committee Hansard*, 8 August 2024, p. 14.

³¹ Community Disaster Action Group, *Submission 50*, p. 4.

³² Ms Kerry Pritchard, Representative, Murwillumbah Community Centre, *Proof Committee Hansard*, 8 August 2024, p. 23.

Impact on local businesses and industries

- 2.31 Evidence to the committee indicated that the economic impact of disasters on local businesses and industries can be catastrophic.
- 2.32 The Small Business Development Corporation (SBDC), an independent statutory authority of the Government of Western Australia, submitted that:
- Small businesses are the most likely to be severely affected by disaster. Recovery can be hampered by financial loss (as reported by 65 per cent of small businesses with 1–5 employees), property damage and disrupted utilities (especially in regional areas).
- In tourism reliant towns that have suffered from a natural disaster, small businesses may also suffer from reduced income related to the reputational damage to the region, with significant effort required to re-attract visitors to the area.³³
- 2.33 The SBDC further advised that recovery from a disaster can be hampered by unexpected and high costs, noting that the sooner impacted businesses re-open, the sooner employment and supply of goods can occur in the area.³⁴ They referred to the Broome Chamber of Commerce and Industry which indicated that an increase in expenses, including insurance, service as drivers for businesses closing or people moving away from the area.³⁵
- 2.34 The impact of increasing natural disasters on the agricultural and farming industry has also been significant.
- 2.35 Submissions from the Queensland Farmers Federation and Grain Producers SA highlighted the challenges faced by their industries, particularly in disaster prone regions.
- 2.36 The Queensland Farmers Federation, which represents primary producers across the cotton, sugarcane, horticulture, dairy, nursery and garden, poultry, eggs, pork, and intensive animal industries, described the highly variable climatic conditions that Queensland farmers are subject to, and which can undermine production.³⁶
- 2.37 Grain Producers SA, the peak body representing grain farming businesses in South Australia, drew the committee's attention to several climate disasters that devastated parts of South Australia impacting their members. This included the Pinery bushfire in the lower-Mid-North wheat belt of South Australia, which spread quickly due to high winds and open wheat fields. In relation to this disaster alone, Grain Producers SA explained that:

³³ Small Business Development Corporation, *Submission 3*, p. 4.

³⁴ Small Business Development Corporation, *Submission 3*, p. 4.

³⁵ Small Business Development Corporation, *Submission 3*, p. 5.

³⁶ Queensland Farmers Federation, *Submission 41*, p. 2.

Two lives were lost, along with thousands of livestock, copious amounts of broadacre property burnt and about 91 homes destroyed, with many more damaged. The predictions are that significant fire and weather events like this will occur more frequently in the future due to the changing climate and yet, farmers are unable to prepare for this by protecting their business with insurance because previous disasters have seen premiums rise to levels that average farmers can't access.³⁷

³⁷ Grain Producers SA, *Submission 5*, p. 2.

Chapter 3

Rising cost and unavailability of insurance

3.1 Submitters all over the country raised concerns about the rising cost of insurance premiums. This chapter will consider the role and importance of insurance in disaster recovery, and the impact of rising costs and the unavailability of insurance on communities, and particularly vulnerable cohorts, as well as local businesses and local councils in disaster effected areas.

Role of insurance in disaster recovery

3.2 Insurance is a financial product that aims to protect individuals and businesses from financial and asset loss, damage or theft, along with providing peace of mind.¹

3.3 The Insurance Council of Australia (ICA) advised that insurance plays a fundamental role in protecting the financial stability of individuals, businesses and the wider economy from the risks of unexpected events.²

3.4 The Law Council of Australia agreed, explaining that 'comprehensive insurance coverage for climate-related natural disasters can play a critical role in absorbing the costs of future climate damages and losses and in supporting economic recovery in the aftermath of these events'.³

3.5 The Productivity Commission considers that insurance serves a dual purpose: firstly, that insurance payouts reduce the financial impacts of natural disaster damage and secondly, the price of insurance premiums sends a signal to property owners about the magnitude of the risks they face in a particular area.⁴

3.6 Insurance products come in many forms, but the most common products in Australia are:

- car insurance;
- home insurance;
- contents insurance;
- health insurance;
- life insurance; and

¹ HSBC Malaysia, *Why is insurance important and what can it protect?*, [hsbc.com.my/financial-wellbeing/why-is-insurance-important-and-what-can-it-protect/](https://www.hsbc.com.my/financial-wellbeing/why-is-insurance-important-and-what-can-it-protect/) (accessed 25 July 2024).

² Insurance Council of Australia, *Insurance explained*, [insurancecouncil.com.au/consumers/insurance-explained/](https://www.insurancecouncil.com.au/consumers/insurance-explained/) (accessed 7 June 2024).

³ Law Council of Australia, *Submission 54*, p 3.

⁴ Productivity Commission, *Submission 10*, p. 3.

- business insurance.⁵
- 3.7 The Actuaries Institute advised that all of these insurance products are impacted by climate risk, explaining that:

Climate risk impacts many lines of insurance. Home buildings and strata insurance have received extensive coverage both in Australia and in other countries given recent experiences and is the focus of our responses to the specific Terms of Reference. However, climate risk also impacts other personal lines such as motor insurance (given the structural transformation of vehicle types and the different claims cost profile of those vehicles), commercial lines of insurance (such as business continuity or interruption insurance, liability classes and workers compensation), and health and life insurance.⁶

Rising cost and unavailability of insurance

- 3.8 Many submitters told the committee that over the last few years, they have experienced rising insurance costs for their homes and businesses. For some, these costs have doubled or even tripled over a short period. Costs are so prohibitive that some people are either not taking out insurance at all, underinsuring or taking out insurance and foregoing other necessities including healthcare.
- 3.9 The Department of Climate Change, Energy, the Environment and Water submitted that the 'impacts of climate change are contributing to the increasing severity and frequency of natural disasters around the world' and this is contributing to increasing insurance costs for Australians.⁷
- 3.10 Due to the rising cost of premiums, the Insurance Council of Australia (ICA) highlighted the growing 'insurance protection gap'. That is the difference between the cost of recovering from an event and the insurance in place to cover that event which is impacting the insurance industry in Australia and around the world.⁸ Analysis conducted by global reinsurer Swiss Re estimates the protection gap to be USD \$12 billion in Australia.⁹

⁵ Commonwealth Bank of Australia, *Understanding different types of insurance*, commbank.com.au/articles/insurance/understanding-different-types-of-insurance.html (accessed 25 July 2024) and Queensland Government, *Business insurance*, 21 December 2023, business.qld.gov.au/running-business/risk/insurance (accessed 25 July 2024).

⁶ Actuaries Institute, *Submission 36*, p. 1.

⁷ Department of Climate Change, Energy, the Environment and Water, *Submission 20*, p. 1.

⁸ Insurance Council of Australia, *Submission 2*, pp. 2–3.

⁹ Insurance Council of Australia, *Submission 2*, pp. 2–3.

3.11 CHOICE found that the benefits of insurance are 'increasingly out of reach of many people',¹⁰ explaining that:

Climate change is causing premiums to rise, forcing many people to reduce their cover or opt out of insurance altogether. Even where people can afford insurance, inconsistent and confusing policy terms often mean that when they go to make a claim, they find they aren't covered. And rising costs of rebuilding mean that many people find they haven't been adequately insured.¹¹

3.12 The South West Queensland Regional Organisation of Councils told the committee that the 'spiralling costs of insurance premiums are acting as a barrier to progressing regional development goals'.¹²

3.13 The Australian Small Business and Family Enterprise Ombudsman revealed that many businesses cannot secure appropriate insurance at an affordable price. They warned that some businesses are uninsured, or significantly underinsured, with excesses that would preclude any claim being made.¹³

3.14 In relation to household insurance Councillor Steve Krieg, Mayor of Lismore City Council, submitted that 'insurance is probably the biggest roadblock to the Northern Rivers recovery' following the 2022 floods. He advised that, two and a half years since the floods, there are still people waiting on insurance outcomes forced to reside in unliveable houses.¹⁴

3.15 Councillor Shaun Radnedge, Mayor of Murweh Shire Council, gave similar evidence about the impact on families of the cost of insurance:

We are seeing families whose insurance premiums are higher than the house mortgage. We are seeing young people and families not being able to take out a housing loan because of the cost of insurance. Small businesses are facing extreme insurance costs and are not able to insure their buildings and stock. The cost of insurance is causing landlords to exit the rental market with little or no returns on investment after the fixed costs like insurance rates and repairs are deducted.¹⁵

3.16 The Actuaries Institute revealed that, in 2023, more than 1 million Australian households experienced some form of insurance affordability stress. It found

¹⁰ CHOICE, *Weathering the storm: insurance in a climate crisis*, August 2023, p. 5, choice.com.au/consumer-advocacy/policy/policy-submissions/2023/august/climate-insurance-report (accessed 5 November 2024).

¹¹ CHOICE, *Weathering the storm: insurance in a climate crisis*, August 2023, p. 5, choice.com.au/consumer-advocacy/policy/policy-submissions/2023/august/climate-insurance-report (accessed 5 November 2024).

¹² South West Queensland Regional Organisation of Councils, *Submission 52*, p. 1.

¹³ Australian Small Business and Family Enterprise Ombudsman, *Submission 50*, p. 2.

¹⁴ Cr Steve Krieg, Mayor, Lismore City Council, *Proof Committee Hansard*, 8 August 2024, p. 2.

¹⁵ Cr Shaun Radnedge, Mayor, Murweh Shire Council, *Proof Committee Hansard*, 9 August 2024, p. 8.

that rates of insurance affordability stress, non-insurance and underinsurance are particularly significant in disadvantaged communities, concentrated in northern Queensland, northern New South Wales and northern Western Australia, reflecting the higher cyclone and flood risks in these areas.¹⁶

- 3.17 The Australian Prudential Regulation Agency (APRA) reported that household insurance premiums have seen double-digit percentage increases over the recent years, which has exacerbated insurance affordability and accessibility challenges. This has resulted in a widening protection gap, with some of these households deciding to underinsure or cancel their policies altogether given the costs.¹⁷
- 3.18 The committee heard that the protection gap is wider for certain cohorts of the community. For example, the Australia Institute told the committee that increasing costs of insurance are not shared equally across the country, falling disproportionately on people on low incomes, and those living in northern Australia.¹⁸ Further, the Actuaries Institute reported that older Australians, retirees, renters, those who have lower insurance literacy, people who live in socioeconomically disadvantaged areas and have lower savings balances are most impacted.¹⁹

Personal accounts

- 3.19 While conducting public hearings around Australia for this inquiry, the committee heard directly from people struggling with the rising cost of insurance.
- 3.20 Ms Jan Praetz, who has been a resident of Mullumbimby, NSW, for the last 50 years, told the committee:

I'm a senior citizen. I was flooded in February 2022 for the first time ever. I have recently settled with my insurance company but have been very concerned about the rising cost of my insurance. When the flood happened, I was insured by GIO at a cost of \$2,421. That increased in 2023 to \$3,020 and this year in 2024 it's gone up to \$4,396. I'm really fearful as to what my insurance will cost me next year, whether this is going to be just a continual rising of my insurance policy. I'm a pensioner and I find it very difficult to

¹⁶ Actuaries Institute, *Submission 36*, p. 3.

¹⁷ Dr Sean Carmody, Executive Director, Policy and Advice, Australian Prudential Regulation Authority, *Proof Committee Hansard*, 20 September 2024, p. 2.

¹⁸ Mr Adam Gottschalk, Anne Kantor Fellow, Australia Institute, *Proof Committee Hansard*, 30 September 2024, p. 2.

¹⁹ Ms Elayne Grace, Chief Executive Officer, Actuaries Institute, *Proof Committee Hansard*, 20 September 2024, p. 19.

come up with this money, but I'm really scared not to have my house insured.²⁰

- 3.21 Ms Kerry Pritchard, a representative of the Murwillumbah Community Centre was asked to pass on the following experience of a community member who had contacted the Centre:

When we purchased our home, we factored in the price of insurance, knowing that it was quite high, given flood risk.

We wanted to be responsible owners and have full coverage ... However, after the 2022 flood, in August that same year, our insurance price jumped in a way that was out of proportion and could never have been predicted, nor factored in. Upon purchase of our property and insurance our premium more than doubled from \$6,104 to \$13,354.

That was six months out from the flood.

The out-of-proportion increases in premium did not stop there. The very next year it jumped. This year our insurance premium has surpassed our mortgage and we are forced to be underinsured slightly in order to keep our house and our insurance. We pay a significant proportion of our income to these.

CGU is our insurer and when our policy came up for renewal post flood we were informed that the company had changed the way they deal with properties in extreme risk, which they had classified ours as. The floor of our house is known by the insurer to be built above the one in 100 flood line.

We are now paying just under \$25,000 a year for full insurance of around \$400,000, which is well underinsured, maximum coverage on a property that is not impacted at all until a major flood level is reached ... it's caused extreme financial hardship.²¹

- 3.22 Mrs Sandra Gilbert, an Advocate within the Tweed Residential Park Homeowners Association, shared the experience of people living in the residential parks in Tweed Heads:

Eight out of the 14 parks went under. At that stage, we had 90 per cent that were insured. Mostly they were insured with CIL.

The floods came along, and CIL were very good by paying out their insurance premiums, so we've got no complaint about that.

Then it was the phone call or the letter to say: 'Sorry, we don't want anything more to do with you. We cannot insure you full stop.' So that was when the problem set in. As soon as the residents ring up and tell them their postcode, 'It's no, no, no, no.'

Now we would have less than 10 per cent covered, and those 10 per cent represent the younger people that have come into the park that are working.

²⁰ Ms Jan Praetz, private capacity, *Proof Committee Hansard*, 20 September 2024, p. 19.

²¹ Ms Kerry Pritchard, Representative, Murwillumbah Community Centre, *Proof Committee Hansard*, 8 August 2024, p. 17.

We have RACQ insuring them, and their premiums have gone from \$500 to \$3,700 a year.²²

I feel increasingly nervous about the rising cost of insurance, our premium has nearly doubled and I doubt we could afford to rebuild and replace the contents we have. The contents we have now are of a lesser standard than what we lost, we could not afford to rebuild to the required standard and have what we lost replaced. It is depressing knowing that what we own now is so much less likely to be destroyed in a fire as it's built to BAL 40 but that if premiums keep going up as retirees we may not be financially able to insure.²³

- 3.23 Another submitter, who asked the committee to withhold their name, detailed their family's difficulty in obtaining affordable home insurance, despite taking measures to mitigate bushfire risks:

Our home, built in 2011 in Pullenvale, Queensland, was designed to meet stringent bushfire resilience standards (BAL 40). We followed all required recommendations, including metal guttering and downpipes, and incurred extra costs to ensure the house was built safely. Despite this, we find ourselves unable to secure competitive insurance coverage.

My current insurer, Allianz, quoted a renewal premium of \$34,250, a \$20,000 increase from the previous year. Having made changes to our coverage and excess that has now reduced to \$12,750 for a \$2 million sum insured, with a \$5,000 excess. However, other insurers refuse to even quote due to perceived bushfire risk, despite no major bushfires in the area for years.

It is deeply frustrating that after complying with building standards designed to reduce risk, insurance companies can simply ignore these facts and price us out of affordable coverage.

Furthermore, our land includes 24 acres of bushland protected under a Brisbane City Council preservation order, yet Suncorp classifies the property as a farm. This misclassification has led to a blanket refusal of insurance, which compounds the difficulty of securing alternative coverage. My broker informs me that automated systems and blanket rules are replacing thoughtful consideration of individual circumstances, leaving homeowners like us trapped with limited options.²⁴

Impact on vulnerable cohorts

- 3.24 The rising costs of insurance premiums are disproportionately affecting the most vulnerable cohorts in the community including retirees and low socio-economic households. In this regard, the National Insurance Brokers Association (NIBA) told the committee:

²² Mrs Sandra Gilbert, Advocate, Tweed Residential Park Homeowners Association, *Proof Committee Hansard*, 8 August 2024, p. 27.

²³ Bushfire Survivors for Climate Action, *Submission 34*, p. 5.

²⁴ Name Withheld, *Submission 56*, p. 1.

The burden of rising insurance premiums is not evenly distributed across communities. The paradox of insurance is that those who are most impacted by natural perils are least likely to be able to afford to protect themselves from the effects of such events. Rising unaffordability and unavailability of insurance have the potential to further exacerbate existing inequalities by trapping vulnerable populations in high-risk areas and exposing them to greater social harm.²⁵

3.25 National Legal Aid informed the committee that, based on its casework, insurance premiums disproportionately affect lower socio-economic communities, who often live in the high-risk areas as they are more affordable, 'thereby amplifying inequality and creating significant vulnerability pockets'.²⁶

3.26 The committee repeatedly heard evidence regarding the double disadvantage faced by low-income households who are forced to live in high-risk disaster areas while being hit with significantly higher insurance premiums. For such households, underinsurance or no insurance at all is the reality. In fact, evidence to the Australian Competition and Consumer Commission (ACCC) recently indicated that underinsurance in northern Western Australia is estimated to be around 60 per cent.²⁷ At the same time, these households continue to face the real prospect of experiencing or re-experiencing natural disaster.

3.27 Councillor Shaun Radnedge, Mayor of Murweh Shire Council, provided his Council's perspective on this matter:

Our concern within council is that our most vulnerable residents will be the most impacted. We are seeing retirees who have worked all their whole lives, paid tax, paid off their homes and raised a family having to abandon their insurance premiums and are fully exposed to being left destitute if tragedy strikes. We are seeing families whose insurance premiums are higher than the house mortgage. We are seeing young people and families not being able to take out a housing loan because of the cost of insurance. Small businesses are facing extreme insurance costs and are not able to insure their buildings and stock. The cost of insurance is causing landlords to exit the rental market with little or no returns on investment after the fixed costs like insurance rates and repairs are deducted.²⁸

3.28 Good Shepherd highlighted their concerns about the lack of access to affordable, adequate insurance for their clients, who are predominantly women and their children, explaining:

²⁵ National Insurance Brokers Association, *Submission 31*, p. 5.

²⁶ National Legal Aid, *Submission 53*, p. 6.

²⁷ Australian Competition and Consumer Commission, *Insurance monitoring: Third report following the introduction of a cyclone and cyclone-related flood damage reinsurance pool*, September 2024, p. 21, [accc.gov.au/system/files/accc-insurance-monitoring-report-september-2024.pdf](https://www.accc.gov.au/system/files/accc-insurance-monitoring-report-september-2024.pdf) (accessed 5 November 2024).

²⁸ Cr Shaun Radnedge, Mayor, Murweh Shire Council, *Proof Committee Hansard*, 9 August 2024, p. 8.

We know from our program delivery experience that inadequate insurance disproportionately affects women and their children. For example, in our major No Interest Loan (NILs) program (comprising around 40,000 clients), 65% of clients are women. People use the NILs program following disasters, to replace essential household items not covered by insurance.²⁹

- 3.29 Good Shepherd also relayed feedback from their practitioners that ‘insurance is typically one of the first things to go when the cost of other essentials is high, such as housing, energy and food’.³⁰

Impact on tenants

- 3.30 The committee also heard about the impacts on tenants around the country.

- 3.31 Good Shepherd confirmed that renters are disproportionately non-insured, submitting that:

Insurance coverage is particularly low among renters, who comprise the majority of Good Shepherd’s NILs clients (70% are social or private renters). A 2019 analysis of NILs clients found that only 6% of renters had contents insurance, versus the 39% of homeowners with home/contents insurance. In the broader community, one study found that only 23% of public renters and 26% of private renters have contents insurance, versus the 88% of mortgage-holders with home and contents insurance.³¹

- 3.32 Good Shepherd further explained that under tenancy laws, a tenancy ceases when a home is declared uninhabitable. However, often tenants do not have the means to rent a new property and are forced to leave the area, causing them to be displaced from their communities, work, schools and family support.³²

- 3.33 Tenants Queensland, which established a flood recovery team following the February 2022 flood and storm event in Southeast Queensland, observed that:

... there are devastating consequences for tenants who are impacted by climate driven disasters and for, one reason or another, have not had insurance to recoup their losses, replace their belongings or secure alternative accommodation after disaster.³³

- 3.34 Four major concerns were brought to the committee's attention in relation to the experience of tenants. While drawn from evidence given by Tenants Queensland in relation to the experience of tenants in that state, many of the challenges faced by tenants described below are shared by tenants in other parts of the country.

²⁹ Good Shepherd, *Submission 38*, pp. 1–2.

³⁰ Good Shepherd, *Submission 38*, pp. 1–2.

³¹ Good Shepherd, *Submission 38*, pp. 1–2.

³² Good Shepherd, *Submission 38*, p. 24.

³³ Ms Abigail Pfidze, Solicitor, Flood Recovery, Tenants Queensland Ltd, *Proof Committee Hansard*, 9 August 2024, p. 30.

- 3.35 The first is that tenants are faced with increasing premiums for contents insurance, particularly for individuals living in regions deemed to be prone to climate driven disasters. Ms Abigail Pfidze from Tenants Queensland advised that many tenants have no choice but to continue living in higher risk areas due to low vacancy rates. However, due to increasing yearly premiums for contents insurance, the tenants most at risk need to forgo insurance or are underinsuring themselves.³⁴
- 3.36 The second concern is that increasing premiums for home insurance are often passed on to tenants by the homeowner. Ms Pfidze explained that tenants are often footing the bill for landlords' insurance increases that cannot be used for their benefit in the event of a disaster, while also having to forgo insurance for themselves. She advised that ultimately, while landlords and tenants in disaster prone areas are impacted by increasing premiums, the cost can be greater for tenants, who have no means of recouping these costs from elsewhere.³⁵
- 3.37 Thirdly, tenants in some regions are deemed ineligible for insurance. The committee was told of a tenant who recently reached out to Tenants Queensland after signing his lease agreement. He was seeking assistance to find an insurer that would provide him with contents insurance cover, after every insurer he contacted refused to provide insurance. The tenant only later discovered that the home he was renting was in a flood prone area and could not be insured.³⁶
- 3.38 Additionally, Ms Pfidze explained that in Queensland, lessors or agents are not required to disclose to prospective tenants that rental premises have been flood affected. This means that tenants often find out when it is too late that they are at risk of flooding or any other disaster, and that the property and contents within it are uninsurable.³⁷
- 3.39 Finally, Tenants Queensland advised that lessors in Queensland have the discretion of offer temporary accommodation to tenants when premises are damaged due to a disaster, but there is no requirement in tenancy law to offer this. This can lead to tenants living in unsafe conditions for extended periods of

³⁴ Ms Abigail Pfidze, Solicitor, Flood Recovery, Tenants Queensland Ltd, *Proof Committee Hansard*, 9 August 2024, p. 30.

³⁵ Ms Abigail Pfidze, Solicitor, Flood Recovery, Tenants Queensland Ltd, *Proof Committee Hansard*, 9 August 2024, p. 30.

³⁶ Ms Abigail Pfidze, Solicitor, Flood Recovery, Tenants Queensland Ltd, *Proof Committee Hansard*, 9 August 2024, p. 30.

³⁷ Ms Abigail Pfidze, Solicitor, Flood Recovery, Tenants Queensland Ltd, *Proof Committee Hansard*, 9 August 2024, p. 30.

time, because they have nowhere to go after a disaster, or are forced to rely on crisis accommodation.³⁸

³⁸ Ms Abigail Pfidze, Solicitor, Flood Recovery, Tenants Queensland Ltd, *Proof Committee Hansard*, 9 August 2024, p. 31.

Chapter 4

Challenges in the insurance market

- 4.1 Evidence to the committee indicated that there are several factors alongside climate risk that are contributing to the rising cost and unavailability of insurance.
- 4.2 These factors include the concentration of the Australian insurance market, rising inflation and supply chain issues, continued development in high-risk areas and the increasing cost of reinsurance. This chapter considers these factors and explores what can be done to address them.

Factors contributing to the increasing cost and unavailability of insurance

- 4.3 In addition to the increasing severity and frequency of natural disasters contributing to the rising cost of insurance in Australia, submitters raised several factors within the insurance industry that are exacerbating this issue. These factors should be considered within a context in which insurance companies continue to post significant profits. This financial year, Insurance Australia Group Limited (IAG) posted profits of \$1.42 billion, a rise of 79.1 per cent on the previous financial year while Suncorp posted a profit of \$801 million, a 17 per cent increase on the previous year.¹

Market concentration

- 4.4 Australia's insurance market is comprised of several major providers, with certain sectors of the market being highly concentrated with the four major insurers, the IAG, Suncorp, QBE and Allianz which made up approximately 74 per cent of the home and motor insurance market in 2017.²
- 4.5 While the market is fairly concentrated nationally, market concentration is particularly problematic in northern Australia. In 2017, the ACCC stated that insurance markets in that region were concentrated and that 'unusual market dynamics were leading to soft competition'.³
- 4.6 In particular, the ACCC found that home and contents and strata insurance markets were dominated by a small number of insurers, with only eight insurers supplying most of the home and contents and strata insurance, but through

¹ Australian Council of Trade Unions, Insurance companies' price gouging harming workers and consumers, Media Release, 22 August 2024, actu.org.au/media-release/insurance-companies-price-gouging-harming-workers-and-consumers/ (accessed 19 November 2024).

² Senate Economics References Committee, *Australia's general insurance industry*, 10 August 2017, p. 9.

³ Australian Competition and Consumer Commission, answers to questions on notice, 20 September 2024 (received 4 October 2024).

30 different brands and 119 intermediaries, thereby creating the illusion of more competition.⁴

Rising inflation and supply chain issues

4.7 The Insurance Council of Australia (ICA) told the committee that another factor contributing to the rapid increase in insurance premiums is high inflation. The ICA submitted that:

Lasting impacts of the Covid pandemic have created a challenging economic operating environment: supply chain shortages, labour market disruptions, and unprecedented demand in the construction sector have all contributed to increasing headline inflation.⁵

4.8 The ICA noted that higher inflation, particularly in the construction sector, increases the cost of repairing and rebuilding homes and is reflected in higher premiums. It drew the committee's attention to CoreLogic's Cordell Construction Cost Index which shows that building costs rose a record 11.9 per cent in 2022, far outstripping the Consumer Price Index (CPI). While construction cost inflation has since significantly reduced, deflation is unlikely to occur so costs will remain elevated.⁶

Rising cost of reinsurance

4.9 Reinsurance is insurance for insurers. It is an arrangement whereby an insurer transfers all or part of a risk to another insurer to provide protection against a particular risk. It helps insurers to manage their risks by absorbing some of their losses.⁷

4.10 Several submitters, including the major insurers, suggested that the rising cost of reinsurance globally is a contributing factor to the rising cost of insurance premiums.

4.11 The Actuaries Institute submitted that the interaction with reinsurance costs, which is subject to cycles of supply and demand of capital, are a key driver of reinsurance pricing in the short term.⁸

4.12 The ICA further explained that:

... reinsurers have failed to earn their cost of capital in five years out of the last six. Reinsurers have responded accordingly by increasing reinsurance prices significantly and reducing available capacity. As a result, global

⁴ Australian Competition and Consumer Commission, answers to questions on notice, 20 September 2024 (received 4 October 2024).

⁵ Insurance Council of Australia, *Submission 2*, p. 1.

⁶ Insurance Council of Australia, *Submission 2*, p. 1.

⁷ Swiss Re, *The essential guide to reinsurance*, 2015, p. 1, [swissre.com/dam/jcr:d06472ab-2625-48cf-8b4e-7c7ac8aa63f0/The-essential-guide-to-reinsurance.pdf](https://www.swissre.com/dam/jcr:d06472ab-2625-48cf-8b4e-7c7ac8aa63f0/The-essential-guide-to-reinsurance.pdf) (accessed 5 November 2024).

⁸ Actuaries Institute, *Submission 36*, p. 6.

reinsurance costs rose to 20-year highs last year, with Australian insurers facing cost increases of up to 30 per cent. Although reinsurance market conditions are expected to soften in 2025, the current rise in reinsurance costs is being passed on to policyholders.⁹

Taxes on general insurance

- 4.13 Some submitters, including the major insurance companies, the Productivity Commission, and the Actuaries Institute, pointed out that certain state taxes, including stamp duty, GST and the emergency services levy (in NSW) on general insurance contribute to the high cost of insurance premiums.¹⁰
- 4.14 Some witnesses drew particular attention to stamp duty as an inequitable and inefficient tax.¹¹ For example, industry expert, Mr John Trowbridge, explained that under the current system, people who face higher risks and therefore higher premiums are required to pay more tax, which is not fair. While acknowledging that these taxes provide significant revenue to states and territories, he recommended their abolition, given the inequity. If abolition is not possible, Mr Trowbridge suggested that a fairer way of determining the tax could be to calculate it based on the total sum insured or value of land, rather than on the insurance premium.¹²

Continued development in high-risk areas

- 4.15 The ICA advised that continued urban development in high-risk areas is a key driver of increasing losses after a natural disaster.¹³ The ICA explained:
- ... as pressure to house growing populations mounts, development in high-risk areas is increasing globally and locally... Australia has one of the world's highest urban populations, and development in high-risk areas like floodplains is increasing.¹⁴
- 4.16 In some instances, updates to flood modelling have led to re-zoning of urban areas as flood plains. Recent media reporting suggests that this was the situation confronted by the community of Kensington Banks, Melbourne earlier this year

⁹ Insurance Council of Australia, *Submission 2*, p. 3.

¹⁰ See, for example: Insurance Council of Australia, *Submission 2*, [p. 5]; Insurance Australia Group, *Submission 40*, p. 6; Productivity Commission, *Submission 10*, p. 9; and Actuaries Institute, *Submission 36*, p. 9.

¹¹ Mr John Trowbridge, private capacity, *Proof Committee Hansard*, 20 September 2024, p. 33; and Mr George Karagiannakis, Executive Manager, Government and Industry Affairs, Insurance Australia Group Limited, *Proof Committee Hansard*, 20 September 2024, p. 40.

¹² Mr John Trowbridge, private capacity, *Proof Committee Hansard*, 20 September 2024, pp. 30–31.

¹³ Insurance Council of Australia, *Submission 2*, p. 3.

¹⁴ Insurance Council of Australia, *Submission 2*, p. 3.

when about 9000 properties were designated as at risk of flooding as part of 'recast' flood mapping.¹⁵

- 4.17 In other areas, evidence to the committee suggested that construction on flood liable land continues. In the Northern Rivers, NSW the committee was told that 2022 flood affected residents were put into pod villages on a site that is '100 per cent flood liable'.¹⁶ Drawing on its experience with the 2022 floods and the aftermath, the Community Disaster Action Group (CDAG) called for the development of a national, science-based criteria for flood zone mapping.¹⁷
- 4.18 Associate Professor Roslyn Prinsley, Head of Disaster Solutions at the Australian National University, recommended that land use planning and policies and building codes be urgently considered to avoid building more 'shoddy houses in floodplains' and other disaster-prone areas, as this is creating a worse problem for the future.¹⁸
- 4.19 In relation to building codes, the committee is aware that Commonwealth, state and territory building ministers met in June 2024 and agreed on the inclusion of 'climate resilience' as a specific objective of the Australian Building Codes Board (ABCB) from 2025.¹⁹ This change was made in response to recommendations from the Royal Commission into National Natural Disaster Arrangements, and aims to give the ABCB 'a clear mandate to develop future National Construction Code (NCC) requirements that reduce the impact of natural disasters on housing and other critical community facilities'.²⁰
- 4.20 This is a positive step and the ABCB's progress should be closely monitored.

Cash settlements and the difficulty in 'building back better'

- 4.21 Currently, insurance companies pay to replace what has been damaged or destroyed. However, many submitters highlighted the importance of 'building

¹⁵ Sophie Aubrey, 'Home buyback scheme floated after Kensington Banks labelled flood-prone', *The Age*, 20 May 2024, theage.com.au/national/victoria/home-buyback-scheme-floated-after-kensington-banks-labelled-flood-prone-20240520-p5jf2m.html (accessed 5 November 2024).

¹⁶ Chels Hood Withey, President, Community Disaster Action Group, *Proof Committee Hansard*, 8 August 2024 p. 24.

¹⁷ Community Disaster Action Group, *Submission 50*, p. 5.

¹⁸ Associate Professor Robyn Prinsley, Head, Disaster Solutions, Australian National University, *Proof Committee Hansard*, 1 October 2024, p. 42.

¹⁹ Department of Industry, Science and Resources, *Building Ministers' Meeting: Communiqué June 2024*, industry.gov.au/news/building-ministers-meeting-communique-june-2024 (accessed 5 November 2024)

²⁰ Department of Industry, Science and Resources, *Building Ministers' Meeting: Communiqué June 2024*, industry.gov.au/news/building-ministers-meeting-communique-june-2024 (accessed 5 November 2024)

back better' to enable affected households and communities to build more resilient homes and infrastructure.

4.22 The committee heard that there are significant challenges associated with 'building back better' to ensure that a home damaged in a disaster is built back or retrofitted to be more resilient to future disasters.

4.23 Associate Professor Prinsley expressed that, ideally, all houses should be built to a standard that is resilient to future disasters and climate change and, at the moment, that is not the case.²¹

4.24 Dr David King, from the Centre for Disaster Studies at James Cook University, stated that 'building back better' is constrained by the amount of the insurance payout that people get. He explained that:

You may have designs for better and better-quality housing and more disaster resilient housing but, if the insurer only pays for the replacement value of the building before the disaster, people are not going to be able to build back better.²²

4.25 The committee heard that the main way households can 'build back better' is by negotiating a cash settlement from their insurer. This involves the insurer settling the claim with cash instead of taking responsibility for completing repairs themselves, thus allowing the person flexibility to 'build back better'.

4.26 In relation to cash settlements, Dr Antonia Settle, author of the report 'Unsettled', commissioned by Financial Counselling Victoria, advised that financial counsellors had reported that cash settlements are the single biggest problem in insurance for the flood impacted households they were working with following the 2022 Victorian floods.²³

4.27 Dr Settle advised that a major problem with cash settlements is information asymmetry, explaining that:

Information asymmetry is just too big for households to negotiate a fair settlement independently. They don't know enough about rebuilding. They don't know enough about the insurance contract to advocate for themselves effectively.²⁴

4.28 Dr Settle warned that insurers are currently failing to support households as they 'actively discourage households from building back better' as insurance

²¹ Associate Professor Robyn Prinsley, Head, Disaster Solutions, Australian National University, *Proof Committee Hansard*, 1 October 2024, p. 42.

²² Dr David King, Director, Centre for Disaster Studies, James Cook University, *Proof Committee Hansard*, 1 October 2024, p. 41.

²³ Dr Antonia Settle, Lecturer, Monash University, *Proof Committee Hansard*, 30 September 2024, p. 18.

²⁴ Dr Antonia Settle, Lecturer, Monash University, *Proof Committee Hansard*, 30 September 2024, p. 19.

contracts entail like-for-like reinstatement that deliberately excludes betterment.²⁵

4.29 This view was echoed in the Northern Rivers, where the committee was told that 'insurance companies are not allowing people to build with flood resilient materials' unless they agree to take a cash settlement.²⁶

4.30 Suncorp acknowledged that contractual and regulatory constraints around insurance contracts requiring replacing 'like for like', does present complications. They advised:

You might say the logical approach is if you had the means and will and your property were impacted by an event, and your sum insured entitlement was \$100,000 but you want to spend \$120,000 to lift the resilience of that, the only real way to do that is probably with a cash settlement. That comes with constraints and challenges in the industry.²⁷

Insurers failing to recognise disaster mitigation and resilience efforts

4.31 While mitigation and resilience measures are widely recognised as a significant part of the solution to combat the rising cost of damage caused by disasters, there is no requirement for insurers to recognise mitigation efforts and provide discounts accordingly.

4.32 The committee heard from numerous submitters about insurance companies failing to recognise their mitigation and resilience efforts. This means that while these measures may be reducing the impact and risk associated with certain disasters, insurance premiums are not being reduced to reflect this reality.

4.33 Ms Alison Smith, Chief Executive Officer of the Local Government Association of Queensland, gave two examples of this occurring in Queensland. She explained in the Murweh Shire Council, a levee was built that has prevented further flood inundations to the town of Charleville. However, despite this initiative, premiums have significantly increased for households and businesses in the region.²⁸

4.34 Ms Smith also highlighted a similar circumstance in the community of Balonne, where work has been done to construct flood levees, yet premiums have risen by well over 100 per cent.²⁹

²⁵ Dr Antonia Settle, Lecturer, Monash University, *Proof Committee Hansard*, 30 September 2024, p. 19.

²⁶ Ms Jan Praetz, private capacity, *Proof Committee Hansard*, 8 August 2024, pp. 21–22.

²⁷ Mr Tim Buckett, Executive General Manager, Consumer Motor Prevention and Protection Portfolio, Suncorp Group, *Proof Committee Hansard*, 9 August 2024, p. 18.

²⁸ Ms Alison Smith, Chief Executive Officer, Local Government Association of Queensland, *Proof Committee Hansard*, 9 August 2024, p. 3.

²⁹ Ms Alison Smith, Chief Executive Officer, Local Government Association of Queensland, *Proof Committee Hansard*, 9 August 2024, p. 3.

- 4.35 The committee also heard directly from Councillor Shaun Radnedge, Mayor of Murweh Shire Council who gave further detail about what his community has experienced. He explained that Murweh Shire Council has four towns: Charleville, Augathella, Morven and Cooladdi. Charleville has 3,300 residents, and following flooding events in 1997, 2008, 2010 and 2012, the residents of Charleville have suffered increasing insurance premiums, to the point that many residents can no longer afford to insure their residences and small businesses.³⁰
- 4.36 Councillor Radnedge advised that since these flooding events, the following significant mitigation efforts have been made:
- ... the construction of the 7.2 kilometre levee bank in 2011 cost \$11.5 million. The construction of the flood-free residential estate cost \$3 million after 1998. Local government funded grants for raising homes in flood-affected areas have had a cost of 8K per home, and 20 houses to date have been funded by council. Clearing of the Warrego River, post-1990, has been an ongoing annual program, and Bradley's Gully diversion post-2008 had a cost of 400K. The diversion of Bradley's Gully in 2014 added to our mitigation and cost \$12.8 million.³¹
- 4.37 These efforts have been a success in mitigating flood damage, with recent floods at Charleville (recorded as the third highest flood peak since 1990 in the area), resulting in no inundation due to the mitigation works. However, insurance premiums in the area have risen above 400 per cent, despite this significant investment.³²
- 4.38 In relation to this issue, Professor Paula Jarzabkowski, Professor of Strategic Management at the University of Queensland, observed that 'the link between risk mitigation and premium reduction is actually very weak'.³³ She explained that sometimes there is very little that an individual can do to their house that will lead to a substantive reduction in the premium offered to them on that house. Additionally, some of the mitigations measures required are not within an individual's capability, for example, construction of surrounding infrastructure.³⁴

³⁰ Cr Shaun Radnedge, Mayor, Murweh Shire Council, *Proof Committee Hansard*, 9 August 2024, p. 8.

³¹ Cr Shaun Radnedge, Mayor, Murweh Shire Council, *Proof Committee Hansard*, 9 August 2024, p. 8.

³² Cr Shaun Radnedge, Mayor, Murweh Shire Council, *Proof Committee Hansard*, 9 August 2024, p. 8.

³³ Professor Paula Jarzabkowski, Professor of Strategic Management, University of Queensland, *Proof Committee Hansard*, 30 September 2024, p. 20.

³⁴ Professor Paula Jarzabkowski, Professor of Strategic Management, University of Queensland, *Proof Committee Hansard*, 30 September 2024, p. 20.

- 4.39 The insurers indicated that pricing is a complex issue, and taking certain mitigation and resilience measure may not change the price of premiums. Suncorp explained that:

Many elements go into the pricing of risk, particularly a home or commercial risk. It's not just flood. There is bushfire, cyclone, earthquake in some states, hail, storm and storm surge. We model each one of those perils and estimate an expected loss at a risk of adversity that is built into the price of the premium. We calculate an expected loss by multiplying the probability of an event occurring times the loss when it does occur. I would also add that even if the frequency of events doesn't change, your costs could change due to things such as building costs.³⁵

- 4.40 Nevertheless, RACQ and Allianz advised that they do make efforts to recognise mitigation and resilience efforts at the household level, where appropriate. RACQ submitted that:

RACQ recently adopted alternative approaches to how we assess risk based perils pricing, which influences the way we calculate insurance premiums. These models ensure that we calculate premiums on an individual basis that more accurately determines our members' individual level of risk. Where our view on the risk is high, members will see this reflected in their premium. However, they will also experience this model in a more favourable way, where our modelling shows the risk is lower.³⁶

- 4.41 Similarly, Allianz told the committee that:

We have a process where, with any resilience work that's done around floods in particular, where they're able to raise a property or change a floor level—and some of this is expensive and not necessarily easy for households to do—we can provide advice prior to that work and then reflect it immediately in premiums. As I said, it's not a common activity, in terms of householders having the ability to do that, but it's one where we can tangibly demonstrate that. And sometimes that can be quite significant.³⁷

- 4.42 While acknowledging the intentions by the above insurers to recognise mitigation and resilience efforts in their pricing, from the evidence provided to the committee on this issue, it appears that in practice, having mitigation efforts recognised is extremely difficult.

Lack of transparency in pricing insurance premiums

- 4.43 Further adding to the complexity of pricing premiums, the committee heard that the issue is exacerbated by a lack of transparency and clarity around price increases and what they are attributed to.

³⁵ Mr Tim Buckett, Executive General Manager, Consumer Motor Prevention and Protection Portfolio, Suncorp Group, *Proof Committee Hansard*, 9 August 2024, p. 19.

³⁶ Mr Trent Sayers, Chief Executive Insurance, RACQ, *Proof Committee Hansard*, 9 August 2024, p. 24.

³⁷ Mr James Fitzpatrick, Chief Data Officer, Allianz Australia, *Proof Committee Hansard*, 20 September 2024, p. 44.

- 4.44 The Financial Rights Legal Centre (FRLC) told the committee that 'pricing in Australia for insurance is so opaque; it is such a black box. We have no visibility of it.'³⁸ Moreover, they have seen 'example after example of people whose insurance has doubled, tripled, quadrupled with zero explanation'.³⁹
- 4.45 The committee heard similar experiences of people receiving vastly different quotes from different insurance companies, and sometimes even the same company, causing many to doubt the basis and legitimacy of pricing.
- 4.46 Mr Dale Emerson of Community Disaster Action Group shared the experience of a policyholder in his community who he assisted to get flood insurance:
- One of them, NRMA, said it would be \$30,000 for flood insurance. I'll repeat: \$30,000. Suncorp's original quote was \$13,207.58, very specific. They phoned again on 1 May 2023 and they were quoted \$12,703.10 because I advised them to increase their excess.
- The point is that, following this, they did get an insurance quote last year for \$4,000 and this year the price has gone from \$4,200 last August to \$6,700 this year.⁴⁰
- 4.47 Following this experience, Mr Emerson aptly posed:
- ... there seems to be a lack of clarity and a lack of procedural policy because how can, across an industry, there be so many different prices?⁴¹
- 4.48 The Australian Financial Complaints Authority (AFCA) told the committee that they have been receiving complaints resulting from poor quality information from insurers about why premiums have increased.⁴² In looking into some of these complaints, AFCA said that it found it difficult to get the insurer to explain the basis for the premium increase in a way that is meaningful for the consumer and AFCA decision makers. They explained that if insurers fail to provide a meaningful explanation for the increase, the consumer lacks a basis to challenge it.⁴³
- 4.49 AFCA emphasised that 'insurers can and should do better in how they communicate about the basis for premium increases', noting that this is not a call for exhaustive explanations, rather the provision of sufficient information

³⁸ Mrs Julia Davis, Senior Policy and Communications Officer, Financial Rights Legal Centre, *Proof Committee Hansard*, 1 October 2024, p. 32.

³⁹ Ms Vicki Staff, Coordinator for Disaster Recovery, Financial Counselling Australia, *Proof Committee Hansard*, 1 October 2024, p. 31.

⁴⁰ Mr Dale Emerson, Public Officer, Community Disaster Action Group, *Proof Committee Hansard*, 8 August 2024, p. 18.

⁴¹ Mr Dale Emerson, Public Officer, Community Disaster Action Group, *Proof Committee Hansard*, 8 August 2024, p. 18.

⁴² Australian Financial Complaints Authority, *Submission 35*, p. 5.

⁴³ Australian Financial Complaints Authority, *Submission 35*, p. 5.

for a consumer to understand the factors that led to the increase and how those factors may have changed at renewal.⁴⁴

- 4.50 The Local Government Association of Queensland recommended that the Australian Government require greater transparency from insurance companies regarding the methodology used in setting insurance premiums. It strongly argued in favour of a mechanism to ensure that any investment in flood mitigation undertaken by councils informs risk ratings and positively influences insurance premium pricing.⁴⁵
- 4.51 In addition to the need for greater transparency and clear breakdown of the premium price, submitters explained that the risks being considered by insurance companies in pricing decisions should also be transparent.
- 4.52 According to the ICA's website, the National Flood Information Database (NFID) is a national database containing 13.7 million properties, overlaid with the known flood risk according to government flood mapping. However, commercial licensing arrangements between governments and the specialist flood risk experts who prepare the flood maps means that the database is not accessible to the public.⁴⁶
- 4.53 While the committee heard that most insurers use the NFID to assist in determining the flood risk to individual properties, supplemented by multiple other commercial and proprietary information sources, none of this critical information is available to the public.⁴⁷
- 4.54 Even researchers have found it difficult to obtain critical information to assist their work, with Associate Professor Prinsley submitting:
- ... some insurance companies won't give you the data at all, unless you're the government. Even then, it sounds like it could be a bit challenging. With others, you can buy some of the data. It's not easy to get data.⁴⁸
- 4.55 Associate Professor Prinsley told the committee that as increasing climate risk is such an important problem for the country 'we should be sharing all the data

⁴⁴ Australian Financial Complaints Authority, *Submission 35*, p. 5.

⁴⁵ Local Government Association of Queensland, *Submission 18*, pp. 4–5.

⁴⁶ Insurance Council of Australia, *Flood insurance explained*, insurancecouncil.com.au/resource/flood-insurance-explained (accessed 25 July 2024).

⁴⁷ Insurance Council of Australia, *Flood insurance explained*, insurancecouncil.com.au/resource/flood-insurance-explained/ (accessed 25 July 2024).

⁴⁸ Associate Professor Robyn Prinsley, Head, Disaster Solutions, Australian National University, *Proof Committee Hansard*, 1 October 2024, p. 43.

that everyone has to try to make sure that we can address that problem in the best possible way'.⁴⁹

Monitoring and oversight of premium prices

- 4.56 In relation to the insurance market, the committee understands that insurers are primarily regulated by the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Agency (APRA). However, neither have a direct role in monitoring or overseeing insurance premium setting, which the committee was advised is a commercial decision for the insurers themselves.⁵⁰
- 4.57 Further, the Australian Competition and Consumer Commission (ACCC) has oversight over competition law in Australia, including in the insurance industry. However, while the ACCC can be tasked by governments to undertake particular oversight responsibilities—for example, the ACCC's current directive to monitor and report on the Cyclone Reinsurance Pool—the ACCC does not have a current role in price monitoring in the wider insurance market.⁵¹
- 4.58 The lack of transparency in relation to premium pricing in the insurance market is compounded by a lack of oversight over premiums pricing and remains a significant issue. Several submitters recommended that steps be taken to provide greater oversight of the market alongside price transparency to address this gap.

Challenges with the strata insurance market

- 4.59 Strata is the fastest growing form of residential property ownership in Australia.⁵² A strata title allows individual ownership of part of a property (called a lot and can include land, a townhouse, villa, duplex, or an apartment), combined with shared ownership in the remainder of the property through a legal strata structure, called owners corporations (OCs), bodies corporate, strata companies or strata corporation.⁵³
- 4.60 The committee heard that strata insurance is compulsory in all states and territories.⁵⁴ The Strata Community Association (Queensland) advised that

⁴⁹ Associate Professor Robyn Prinsley, Head, Disaster Solutions, Australian National University, *Proof Committee Hansard*, 1 October 2024, p. 43.

⁵⁰ Dr Sean Carmody, Executive Director, Policy and Advice, Australian Prudential Regulation Authority, *Proof Committee Hansard*, 20 September 2024, p. 1.

⁵¹ Australian Competition and Consumer Commission, answers to questions on notice, 20 September 2024 (received 4 October 2024).

⁵² Owners Corporation Network of Australia Limited, *Submission 11*, p. 1.

⁵³ Strata Community Association, *Submission 27*, p. 1.

⁵⁴ Strata Community Association (Qld), *Submission 6*, p. 3.

while this should ensure universal coverage, in practice, aggressive risk avoidance by insurance underwriters makes it difficult for some to obtain cover at all, particularly in Far North Queensland where this is a common scenario. Consequently, this is leaving strata homeowners 'very exposed to climate related weather events'.⁵⁵

- 4.61 Mr John Trowbridge agreed that it is difficult for some owners' corporations to secure insurance. He further observed that some brokers and strata managers are charging fees or commissions of over 20 per cent, which is exacerbating the cost for strata insurance.⁵⁶
- 4.62 This concern was shared by the Owners Corporation Network of Australia Limited (OCN), the independent peak consumer body representing the rights and interests of residential strata and community title owners and residents. The OCN argued that intermediary fees, commissions and profits are driving up the cost of insurance even more so than climate risk, recommending that 'the ACCC or another appropriate body should investigate the growth in intermediary and distribution margins'.⁵⁷

⁵⁵ Strata Community Association (Qld), *Submission 6*, p. 3.

⁵⁶ Mr John Trowbridge, *Submission 42*, p. 26.

⁵⁷ Owners Corporation Network of Australia Limited, *Submission 11*, p. 10.

Chapter 5

Proposed solutions to the affordability crisis

- 5.1 Throughout this inquiry, the committee has heard that increasingly severe and frequent natural disasters in Australia driven by climate change are contributing to insurance becoming unaffordable, and, some cases, unavailable, particularly in the areas that need it most. This issue is compounded by specific challenges present in the insurance sector, detailed in previous chapters of this report.
- 5.2 This chapter will set out the solutions proposed by submitters, including insurance companies, businesses, advocates, community groups, researchers, experts and members of the community struggling with these issues.
- 5.3 The proposed solutions are set out in three sections, with the first aimed at reducing the price of premiums. The second is aimed at protecting the most vulnerable cohorts and communities impacted by climate disasters. The third set of proposed solutions are targeted at addressing the underlying issue of climate risk to reduce the cost of insurance in the longer term.
- 5.4 The committee acknowledges that a multifaceted approach is needed, with submitters agreeing that ‘action by all levels of Governments, industry and regulators’ is required to address the challenges of climate risks and insurance in this country.¹

Proposed solutions to reduce insurance premiums

- 5.5 The following solutions proposed to the committee are aimed at directly reducing the price of insurance premiums. They include requiring greater transparency in relation to premium pricing, more investment in mitigation and resilience measures and tax reform to abolish taxes on insurance to directly lower the cost for policyholders.

Data sharing and transparency

- 5.6 Chapter 4 of this report detailed challenges flowing from the lack of transparency in relation to premium pricing and the information used by insurers to assess climate risks, such as the National Flood Information Database (NFID). To address this problem, submitters have urged that greater transparency be required in relation to these two matters.

Transparency in premium prices

- 5.7 To enable greater transparency in relation to premium prices, a number of submitters made suggestions about how this could be achieved. For example, the Australian Financial Complaints Authority (AFCA) proposed that, although

¹ Australian Prudential Regulation Authority (APRA), *Submission 15*, p. 2.

a detailed breakdown of costs is not required, a meaningful explanation of why certain prices have changed would enable policyholders to understand price changes. This information would also inform policyholders who seek to challenge the basis of price increases where relevant.²

- 5.8 Legal Aid Queensland proposed that governments require insurers to provide an adequate breakdown of premium prices. Mr Paul Holmes, Director of the organisation's Disaster Relief team, explained that this would allow people to make better decisions about whether a premium is right for them, and potentially indicate which resilience measures a policy holder could implement to lower costs.³
- 5.9 The point was made to the committee that there is no centralised, comprehensive government monitoring mechanism in relation to insurance premiums in Australia. Furthermore, there is no agency responsible to oversight insurance premium prices in Australia across the wider insurance market. It became apparent to the committee that an oversight mechanism, responsible to report publicly on a regular basis, would be a first and important step towards greater transparency in relation to the insurance industry in Australia.

Transparency in climate risk information

- 5.10 In addition to transparency about premium prices, the committee heard that there also needs to be transparency in relation to climate risks.
- 5.11 The Law Council of Australia expressed that more information about how climate risk is priced into insurance products is needed. They suggested that 'confidence in the equitable setting of premiums would be improved with information transparency, education and oversight of new and emerging approaches to use of data and pricing,' noting that this is consistent with international best practice in the management of climate-related financial risks by corporations.⁴⁵
- 5.12 The Insurance Council of Australia (ICA) also supported greater transparency in relation to both state and federal information about climate hazard data, including flood, bushfire, cyclone and coastal erosion risks. They explained that the availability of comprehensive data on these risks will establish a 'national

² Australian Financial Complaints Authority, *Submission 35*, p. 5.

³ Mr Paul Holmes, Director, Disaster Relief Team, Legal Aid Queensland, *Official Committee Hansard*, 9 August 2024, p. 37.

⁴ The Law Council of Australia, *Submission 54*, p. 5.

⁵ The Law Council of Australia, *Submission 54*, p. 5.

public baseline' that can better inform land use planning, building codes and standards as well as risk assessments.⁶

5.13 While there is currently no centralised dataset with nationally consistent definitions and terminology, the committee heard that much of the relevant but disparate information is already being collected by various agencies and bodies, including:

- the Australian Climate Service, a partnership of the Bureau of Meteorology, Geoscience Australia, CSIRO and the Australian Bureau of Statistics, which is delivering the National Climate Risk Assessment and National Adaptation Plan, to help to help communities and businesses better understand the impacts of climate change.⁷
- the CSIRO, which is developing methods for national bushfire hazard mapping as part of the National Bushfire Intelligence Capability.⁸
- the National Flood Information Database (NFID), which is a national database of known flood risks.⁹
- NEMA, which is developing a mitigation measures knowledge database to develop a comprehensive public collection of evidence-based risk mitigation activities for flood, cyclone and bushfires.¹⁰
- research and mapping maintained by the Climate Council.¹¹
- extensive localised data collected by local governments around the country.¹²

More investment in disaster mitigation and resilience efforts

5.14 Most submitters, including those from all levels of government, insurance companies, professional bodies, advocacy organisations, research organisations and individuals living in disaster prone areas, emphasised the importance of mitigation and resilience measures to reduce the impact of future disasters, and in turn, reduce the cost of insurance premiums.

⁶ Insurance Council of Australia, *Submission 2*, p. 5.

⁷ Department of Climate Change, Energy, the Environment and Water, *Submission 20*, p. 2–3.

⁸ Commonwealth Scientific and Industrial Research Organisation (CSIRO), *Submission 17*, p. 1.

⁹ Insurance council of Australia, Flood Insurance Explained, 2021, insurancecouncil.com.au/resource/flood-insurance-explained/ (accessed 5 November 2024).

¹⁰ Mr Andrew, First Assistant Coordinator-General, Policy and Governance, National Emergency Management Agency, *Proof Commitete Hansard*, 1 October 2024, p. 4.

¹¹ Climate Council, Climate Risk Map of Australia, May 2022, <https://www.climatecouncil.org.au/resources/climate-risk-map/> (accessed 5 November 2024).

¹² Ms Crystal Baker, Manager, Strategic Policy, Local Government Association of Queensland, *Official Committee Hansard*, 9 August 2024, p. 2.

- 5.15 The Department of Climate Change, Energy, the Environment and Water advised that ‘improving insurance affordability will ultimately be driven by reducing exposure to hazards or reducing the consequences of that exposure, through improved preparation and increased resilience’.¹³
- 5.16 The National Emergency Management Agency (NEMA) provided examples of existing government initiatives that focus on mitigation measures and resilience building including:
- Hazards Insurance Partnership (HIP) – established in October 2022 as a partnership between the insurance industry and Australian Government to ensure an agreed agenda on what collective action can be taken to address insurance affordability and availability.
 - Disaster Ready Fund (DRF) – the Australian Government committed \$1 billion to the DRF over five years (\$200m per year), from 1 July 2023 to 30 June 2028 to invest in disaster mitigation infrastructure and systemic disaster risk reduction projects to address any, or multiple, natural hazards including extreme weather events and geological hazards.
 - North Queensland Strata Title Resilience Pilot Program (Strata Program) - \$40 million which will fund up to 50 per cent of disaster mitigation works, with the remaining funding coming from the Queensland Government (25 per cent) and Strata Title holders (25 per cent) to increase the resilience of strata properties such as roof upgrades and window protection.¹⁴
- 5.17 The Productivity Commission told the committee that governments should increase investment in natural disaster mitigation works to not only reduce the price of insurance but also because it is more cost effective than disaster recovery.¹⁵ In a review, it had found that government arrangements for natural disaster funding have a ‘systematic bias toward relief and recovery activities at the expense of mitigation’, which means that ‘government spends too little in disaster mitigation works and subsequently ends up spending more on relief and recovery’.¹⁶
- 5.18 The ICA also recommended that all levels of government should increase funding to strengthen the resilience of Australian homes and businesses. Specifically, they suggested that the Australian Government should extend its Disaster Ready Fund to be a permanent 10-year rolling program and index

¹³ Department of Climate Change, Energy, the Environment and Water, *Submission 20*, p. 1.

¹⁴ National Emergency Management Agency, *Submission 14*, p. 7-9.

¹⁵ Productivity Commission, *Submission 10*, p. 3.

¹⁶ Productivity Commission, *Submission 10*, p. 7.

disaster mitigation funding from 2023–24, so that there is no reduction in real terms.¹⁷

5.19 Professor Roslyn Prinsley from the ANU Institute for Climate, Energy and Disaster Solutions advised that ‘the best way to reduce recovery costs and close the insurance gap is to find effective methods to minimise disaster impacts in the first place, leaving much less damage to pay for’. She further explained that:

disasters are caused by three things: the extent of the hazard itself, our exposure to the hazard and our vulnerability to that hazard. To reduce disaster impacts and consequent insurance liabilities, we need to address all three.¹⁸

5.20 Insurers including Allianz and Insurance Australia Group (IAG) expressed the view that government and community led mitigation and resilience measures, including planned relocations, are essential. Allianz noted in this regard:

... the insurance industry has long called for comprehensive measures to mitigate against the risk of extreme weather – for example mitigation at the community level can help to protect the property against damage in the first place (for example, a flood levy that prevents inundation of a property by flood waters) and, at the property level, make the property more resilient to damage.¹⁹

5.21 The Australian Consumers Insurance Lobby made the point that insurance companies, who often call for government and community led mitigation and resilience measures to address the rising cost of insurance, could also take a more proactive approach to mitigation. It suggested that the ICA could require its members to contribute a percentage of profits to contribute to mitigation measures.²⁰

5.22 Mitigation and resilience measures will vary depending on the region and can include a wide range of actions such as:

- building flood levees,
- raising homes,
- building with fire resistant materials, and
- relocation of properties.

5.23 The committee heard that local community groups are working to come up with innovative and affordable mitigation and resilience options.

5.24 For example, Ms Madeleine Serle, President of the Maribyrnong Community Recovery Association (MCRA), spoke of the MCRA’s ‘Build Resilient Project.’

¹⁷ Insurance Council of Australia, *Submission 2*, p. 4–5.

¹⁸ Associate Professor Roslyn Prinsley, Head of Disaster Solutions, Australian National University, *Proof Committee Hansard*, 1 October 2024, p. 40.

¹⁹ Allianz, *Submission 39*, p. 4.

²⁰ Australian Consumers Insurance Lobby, *Submission 4*, p. 6.

The aim of this project is to design and build a ‘gold-standard resilient’ property from scratch in Maribyrnong township, that is safe, liveable, and sustainable.²¹

- 5.25 In relation to the cost of resilient building materials, Ms Serle acknowledged that ‘at the moment, to build in a resilient way does cost more, but that’s a function of those products not being widely used ... I challenge the idea that short-term cost is too high a barrier to long-term resilience’.²²

Requiring insurers to recognise mitigation and resilience measures in pricing

- 5.26 As detailed above, mitigation and resilience measures are considered a significant part of the solution to combating the rising cost of insurance. However, the committee heard there is no requirement for insurers to recognise such initiatives and provide discounts on insurance premiums accordingly.
- 5.27 To combat this issue, some submitters suggested that insurers be compelled to take mitigation and resilience measures into account in pricing, and to be transparent about the steps they take to the consumer.
- 5.28 The AFCA considers that risk mitigation initiatives need to be supported by ‘clear referable standards to guide consumers about the types of measures other customers confronting similar risks have undertaken’ and ‘clear disclosure about any premium reductions that may follow’.²³
- 5.29 The committee understands that some insurers have formalised programs for recognising certain mitigation and resilience efforts. For example, Suncorp and NRMA recently committed to provide discounts to households with a certified Bushfire Resilience Rating of 3 and above.²⁴
- 5.30 While these initiatives are a positive step, they are limited and isolated. They fail to recognise the extensive work being done around the country to mitigate properties and critical infrastructure from natural disasters.

Tax reform

- 5.31 Some submitters, including the major insurance companies, the Productivity Commission and the Actuaries Institute, told the committee that they have long advocated for reducing or removing taxes on general insurance, including stamp duty, GST and the emergency services levy in NSW.²⁵

²¹ Ms Madeleine Serle, President, Maribyrnong Community Recovery Association, *Proof Committee Hansard*, 30 September 2024, p. 5.

²² Ms Madeleine Serle, President, Maribyrnong Community Recovery Association, *Proof Committee Hansard*, 30 September 2024, p. 5.

²³ Australian Financial Complaints Authority, *Submission 35*, p. 3.

²⁴ National Emergency Management Agency, *Submission 14*, p. 10.

²⁵ Ms Vanessa Beenders, Executive General Manager, Public Policy and Professionalism, Actuaries Institute, *Proof Committee Hansard*, 20 September 2024 p. 22.

- 5.32 In its evidence to the committee, RACQ called on governments to ‘remove the double taxing on insurance where people are paying 10 per cent GST as well as approximately nine per cent stamp duty’. RACQ further stated that ‘for a \$3,000 home and contents policy, which is common in many parts of Queensland, means approximately \$500 of the premium is tax’.²⁶
- 5.33 Similarly, QBE made the point that the industry has consistently advocated for the removal of taxes from insurance as an immediate step that would address insurance affordability. QBE also drew the committee’s attention to evidence from the ICA which indicated that after natural peril risk, the second biggest component of the cost of insurance premiums is taxation. As such, they argued that removing state insurance taxes would provide ‘swift relief to households and should be an immediate priority for government’.²⁷
- 5.34 The Actuaries Institute also supported the replacement of taxes on general insurance with more efficient and equitable sources of taxation.²⁸
- 5.35 This view was echoed by Mr Tyrone Shandiman, Chair of Australian Consumers Insurance Lobby, who told the committee that one of his organisation’s top priorities is the abolition of stamp duty on insurance, stating that it is an ‘unfair tax, because, particularly in states like Queensland, where someone is paying 10 times the cost for insurance, they pay 10 times the stamp duty’.²⁹
- 5.36 Mr Shandiman advised that if stamp duty cannot be abolished, the revenue it raises should, at least, be used on mitigation and resilience measures to help reduce the cost of insurance for consumers across Australia.³⁰

Proposed solutions to support vulnerable cohorts

- 5.37 The following solutions proposed to the committee are aimed at assisting the most vulnerable cohorts in the community, including those who live in high-risk regions, those on lower incomes, and renters who are at greater risk of homelessness following disaster.

²⁶ Mr Trent Sayers, Chief Executive Insurance, RACQ Ltd, *Official Committee Hansard*, 9 August 2024, p. 28.

²⁷ Mr Chris, Chief Financial Officer, QBE Insurance (Australia) Ltd, *Proof Committee Hansard*, 1 October 2024, p. 55.

²⁸ Ms Vanessa Beenders, Executive General Manager, Public Policy and Professionalism, Actuaries Institute, *Proof Committee Hansard*, 20 September 2024, p. 22.

²⁹ Mr Tyrone Shandiman, Chair, Australian Consumers Insurance Lobby, *Proof Committee Hansard*, 20 September 2024 p. 25.

³⁰ Mr Tyrone Shandiman, Chair, Australian Consumers Insurance Lobby, *Proof Committee Hansard*, 20 September 2024 p. 25.

5.38 These solutions include direct subsidies to low-income households struggling with the cost of insurance, reforming land use and planning laws to ensure that new developments are not being progressed in high-risk areas, alternative insurance options, and expanding the government backed reinsurance pool.

Subsidising insurance premiums

5.39 The Financial Rights Legal Centre and National Legal Aid suggested that a short-term solution to the increasing costs of insurance premiums could include the provision of government subsidies to homeowners, particularly those that fall within a vulnerable cohort, such as retirees and displaced tenants.

5.40 This option was put forward as a short-term measure, to ‘target affordability issues in certain areas’ to ensure that people on low incomes are not bearing the brunt of the loss when a disaster comes through, while transitioning to a lower risk environment. The Financial Rights Legal Centre explained that:

It's not intended to be something that lasts forever; it is while the government is investing in buybacks and mitigation and reducing risk, and better land use planning.³¹

5.41 On a broader level, the Actuaries Institute warned that any government intervention that encourages property development in high-risk areas must be avoided, drawing the committee’s attention to an example from the United States where flood insurance was provided to properties on certain beaches, which created more development in those areas, exacerbating the issue.³²

5.42 However, given the severity of the current affordability crisis in many parts of Australia, some submitters considered this could provide immediate relief to the most vulnerable, while other longer-term measures to tackle rising costs and accessibility to safe housing are considered.

Parametric insurance

5.43 The committee also received evidence of ways to reform the insurance sector. One such example is that of parametric insurance. Parametric insurance is an index-based solution, whereby a premium is paid in return for a specific payout if a pre-defined event occurs.³³ This means that unlike traditional insurance, which pays out based on actual losses, parametric insurance provides payouts

³¹ Mrs Julia Davis, Senior Policy and Communications Officer, Financial Rights Legal Centre, *Proof Committee Hansard*, 1 October 2024, p. 34.

³² Ms Elayne Grace, Chief Executive Officer, Actuaries Institute, *Proof Committee Hansard*, 20 September 2024 p. 20.

³³ Swiss Re, Corporate Solutions, *What is Parametric insurance?*, https://corporatesolutions.swissre.com/insights/knowledge/what_is_parametric_insurance.html (accessed 5 November 2024).

based on predefined triggers, such as the occurrence of a specific natural event (for example, a certain level of rainfall or a certain flood height).³⁴

- 5.44 This alternative insurance model was raised with the committee by several submitters as an alternative approach to replace or compliment traditional indemnity insurance products.
- 5.45 Good Shepherd, in partnership with the consultancy group Think Human, proposed such a model. It suggested an insurance pool of this nature, administered by government. Good Shepherd explained that risk pooling combines the risks of all policyholders into one pool, so that premiums of lower risk policyholders subsidise higher risk policyholders, keeping insurance universally affordable.³⁵
- 5.46 Good Shepherd explained that this model would create a basic insurance pool for all homeowners, including strata owners and caravan park residents. All homeowners would be required to pay into the pool, including landlords. To ensure equity, premiums could potentially be based on the ratable value of properties. The pool would be complimented by disaster mitigation measures, to reduce pooled risk and premiums over time.³⁶
- 5.47 The pool would insure the first \$100,000 of risk against hazards such as floods, storms and fires, and provide an additional resilience payment of \$20,000 for building mitigation measures. Renters in affected properties would be provided with payments to help pay for temporary accommodation, a bond for a new rental home, and other re-establishment costs. However, beyond the \$100,000 cap, private insurance coverage would be required. The new insurance pool would therefore provide a minimum level of insurance coverage, including for those who cannot afford any level of coverage at present and into the future.³⁷
- 5.48 Good Shepherd provided the committee with a feasibility study for this model and asked that the merits and feasibility of this type of scheme be considered to manage the growing household financial pressures arising from climate-driven disasters.³⁸
- 5.49 Another submitter, CelsiusPro, advised that in Australia, they focus on agricultural parametric insurance, which covers catastrophic events such as cyclones, drought, floods, loss of yield caused by heat and cold, and quality

³⁴ CelsiusPro, *Submission 48*, p. 4.

³⁵ Good Shepherd, *Submission 38*, p. 4

³⁶ Good Shephard, *Submission 38*, pp. 4-5.

³⁷ Good Shephard, *Submission 38*, pp. 4-5.

³⁸ Good Shephard, *Submission 38*, pp. 4-5.

caused by rain at harvests.³⁹ They observed that the use of parametric insurance is a growing trend, globally and also within Australia, particularly where indemnity-style insurance is too expensive or does not exist.⁴⁰

5.50 Submitters including the Financial Rights Legal Centre, agreed that parametric insurance could be a potential solution to complement indemnity insurance products. While it only protects against a singular risk, and requires the consumer to decide the trigger point, it would remove the current claims assessment process, meaning people will get paid out quickly.⁴¹

5.51 Mrs Julia Davis, Senior Policy and Communications Officer at the Financial Rights Legal Centre, gave an example of how parametric insurance could assist tenants. She advised that if a residence becomes unliveable, the tenant will immediately get a cash amount, to enable them to move or find other accommodation.⁴²

Reforming land use and planning laws

5.52 Numerous submitters, including the ICA, the Actuaries Institute, Australian Small Business and Family Enterprise Ombudsman, National Legal Aid, the South West Queensland Regional Organisation of Councils, the Climate Risk Group, and the major insurers highlighted the need to reform current land use and planning laws.

5.53 Reforms that were suggested included banning new development on flood plains and other high-risk locations and the introduction of more robust building standards to ensure properties are more resilient to a range of natural disasters.

5.54 The ICA advised that 'the main factors driving up disaster losses are expanding development and urbanisation. The upward pressure on premiums from these factors, even before climate change impacts are fully felt, underscores the urgent need to reform land use planning, improve building standards, and implement programs such as property buybacks in vulnerable areas.'⁴³

5.55 The Actuaries Institute emphasised the need to strengthen building codes and land use planning rules to consider the lifespan of building structures and uncertainty of climate change scenarios, while also increasing the supply of

³⁹ CelsiusPro, *Submission 48*, p. 4.

⁴⁰ Mr Jonathan Barratt, Chief Executive Officer, CelsiusPro Australia Pty Ltd, *Official Committee Hansard*, 20 September 2024, p. 56.

⁴¹ Mrs Julia Davis, Senior Policy and Communications Officer, Financial Rights Legal Centre, *Proof Committee Hansard*, 1 October 2024, p. 39.

⁴² Mrs Julia Davis, Senior Policy and Communications Officer, Financial Rights Legal Centre, *Proof Committee Hansard*, 1 October 2024, p. 39.

⁴³ Insurance Council of Australia, *Submission 2*, p. 3.

resilient and affordable homes. Further, 'building codes should extend to re-building, so that we are building back better'.⁴⁴

- 5.56 Similarly, the Australian Small Business Ombudsman drew the committee's attention to the Climate Council's projection that approximately 520,940 properties will be categorised as high risk, and uninsurable by 2030, with 80 per cent of the high-risk properties being affected by riverine flooding. Considering these challenges, it recommended that the government take account for climate risks in land use planning.⁴⁵
- 5.57 The Law Council of Australia recommended legislative changes to explicitly prohibit new development in high-risk areas such as floodplains and bushfire zones.⁴⁶ Suncorp agreed with the suggestion that zoning authorities cease development in unsuitable locations and noted that building codes also require modifications and improvements to better reflect the impact of natural disasters. Suncorp also expressed the view that it is time for a 'national conversation on relocation,' as part of the consideration of other options.⁴⁷

Government backed reinsurance pools

- 5.58 Many witnesses, from a cross-section of the community, recommended that the Cyclone Reinsurance Pool be expanded to address the insurance affordability crisis.
- 5.59 The reinsurance pool commenced operating on 1 July 2022, under the Australian Reinsurance Pool Corporation (a Commonwealth corporate entity and public financial corporation within the Treasury portfolio). The aim of the pool is to ultimately lower insurance premiums for homes and small businesses in northern Australia with a high risk of cyclone and cyclone-related flood damage by reducing the cost of reinsurance for insurers.⁴⁸
- 5.60 The committee understands that participation in the pool is mandatory for general insurers with eligible policies, but all insurers can voluntarily join the pool. Fifteen insurance companies have joined the pool to date, including Allianz, Youii, RACQ, Sure Insurance, QBE Insurance and IAG Ltd.
- 5.61 The pool is funded by insurers paying premiums each year, backed by an annually reinstated \$10 billion government guarantee. Any shortfall in reserves will be paid for through the government guarantee. Additionally, the Australian Competition and Consumer Commission (ACCC) has been tasked with

⁴⁴ Actuaries Institute, *Submission 36*, p. 7.

⁴⁵ Australian Small Business and Family Enterprise Ombudsman, *Submission 51*, p. 4.

⁴⁶ Law Council of Australia, *Submission 54*, p. 7.

⁴⁷ Suncorp, *Submission 23*, p. 4.

⁴⁸ Law Council of Australia, *Submission 54*, p. 6.

monitoring insurance premiums that insurance companies charge consumers to ensure savings are passed through to policyholders.

- 5.62 The committee heard that there is strong support for the expansion of the reinsurance pool to include other regions and types of disasters, including floods and fires. Submitters in other high-risk disaster effected regions, including the Northern Rivers, advised that they would like to see the reinsurance pool applying to flooding in their region.
- 5.63 For example, Mrs Sharon Cadwallader, Mayor of Ballina Shire Council, advised that she has been advocating for a reinsurance pool for the Northern Rivers since the 2022 floods.⁴⁹
- 5.64 The Law Council of Australia suggested that broadening the reinsurance pool to include additional cohorts and regions may assist in delivering insurance savings to policy holders.⁵⁰
- 5.65 Allianz expressed support for the reinsurance pool, stating that in its experience, since entering the pool on 1 January 2023, the highest cyclone risk home building premiums were up to 70 per cent lower than before the pool was in place.⁵¹ Allianz further advised that the introduction of the pool has allowed it to expand into the northern Australia insurance market, noting that that is an area where they have historically had difficulty providing insurance.⁵²
- 5.66 The Financial Rights Legal Centre also supported of the reinsurance pool, or even the creation of a separate pool for other disasters, including flooding.⁵³
- 5.67 Others argued in favour of changes to the design of the pool before an expansion is implemented. For example, RACQ told the committee that it supports a ‘well-designed cyclone reinsurance pool’, arguing that:

The policy parameter of budget neutrality that was imposed on the pool when it was designed should be challenged and opportunities for subsidisation of the pool should be explored. The pool should be expanded to at least provide cover for flood caused by cyclone and perhaps consider total flood cover. The existing 48-hour claims period should be replaced

⁴⁹ Mrs Sharon Cadwallader, Mayor, Ballina Shire Council, *Official Committee Hansard*, 8 August 2024, p. 4.

⁵⁰ Mr James Fitzpatrick, Chief Data Officer, Allianz Australia, *Official Committee Hansard*, 20 September 2024, p. 49.

⁵¹ Allianz, *Submission 29*, p. 3.

⁵² Mr James, Chief Data Officer, Allianz Australia, *Official Committee Hansard*, 20 September 2024. p. 48.

⁵³ Mrs Julia Davis, Senior Policy and Communications Officer, Financial Rights Legal Centre, *Proof Committee Hansard*, 1 October 2024, p. 34.

with seven days, by global reinsurance definitions. The pool should be expanded to cover motor insurance.⁵⁴

5.68 Mr Tyrone Shandiman, Chair of the Australian Consumers Insurance Lobby indicated that while they believe a reinsurance pool is a good solution to leveling premiums, the current pool has been a source of frustration for the organisation. He explained:

... we feel it is not established properly or set up appropriately. We feel that there are problems with modelling and no integration of mitigation and resilience.⁵⁵

5.69 To address these concerns, the Local Government Association of Queensland recommend that the government undertake a holistic evaluation and review of the reinsurance pool. Its Chief Executive Officer, Ms Alison Smith, explained:

... our members were delighted when the reinsurance pool was created because it was something that they had advocated strongly for. We think that it is very narrow in its criteria because ultimately it is set around cyclone-related flood in the first 48 hours once the cyclone is declared. In Queensland, it doesn't take long to have a look at what actually happens in a cyclone. We have regular events post-cyclones that can lead to flooding or further storm or rain depressions that lead to extensive flooding. We think all of those should be included within the remit of the reinsurance pool. We would also suggest that, for it to be truly effective, it needs to take into account other natural disasters such as tsunami and earthquake et cetera.⁵⁶

5.70 In September 2024, the ACCC released its third insurance monitoring report about the efficacy of the reinsurance pool in lowering the price of premiums. In this report, the ACCC observed that the cyclone reinsurance pool is beginning to deliver premium relief for some consumers in some regions facing higher risk of cyclones.

5.71 However, the ACCC also found that the cost savings generated by the pool have been offset, to varying extents, by other cost increases, and the availability of insurance does not appear to have markedly changed. The ACCC further noted that it may take several years before most consumers experience the reinsurance pool's impact on their premiums.⁵⁷

⁵⁴ Mr Trent Sayers, Chief Executive Insurance, RACQ Ltd, *Official Committee Hansard*, 9 August 2024, p. 25.

⁵⁵ Mr Tyrone Shandiman, Chair, Australian Consumers Insurance Lobby, *Proof Committee Hansard*, 20 September 2024 p. 25.

⁵⁶ Ms Alison Smith, Chief Executive Office, Local Government Association of Queensland Local, *Official Committee Hansard*, 9 August 2024, p. 3.

⁵⁷ Australian Competition and Consumer Commission, Insurance Monitoring, September 2024, [accc.gov.au/system/files/accc-insurance-monitoring-report-september-2024.pdf](https://www.accc.gov.au/system/files/accc-insurance-monitoring-report-september-2024.pdf) (accessed 30 October 2024).

- 5.72 Speaking against the reinsurance pool, the Productivity Commission maintained its view that the pool should be phased out entirely, stating that it risks subsidising the 'movement of individuals, households, and businesses into harm's way'.⁵⁸
- 5.73 Despite this, the committee heard from a wide range of stakeholders who support the expansion of an improved reinsurance pool to cover other regions and types of disasters, as another tool for tackling insurance affordability and availability in Australia.

Proposed solutions to address climate risk

- 5.74 Many submitters to this inquiry recognised that ultimately, to address the issue of insurance affordability, the underlying climate risk must be reduced.
- 5.75 The following solutions proposed to the committee are aimed at reducing the underlying issue of climate risk and a 'polluter-pays' model designed to invest in disaster mitigation efforts while ensuring that those responsible for polluting the environment pay for the damage caused.

Addressing climate change

- 5.76 According to the ICA, the representative body for the general insurance sector of Australia, 'targeting climate change is the single greatest solution to home insurance affordability for households most impacted by increasing natural peril risks'.⁵⁹
- 5.77 The ICA further stated that the long-term solution to home insurance affordability is to 'continue to tackle the underlying driver of worsening extreme weather, climate change, by maintaining a focus on achieving net zero emissions by 2050'.⁶⁰
- 5.78 In support of this goal, the ICA informed the committee that the insurance industry is taking proactive steps. This includes the ICA's launch of its Climate Change Roadmap in 2022 (later updated in 2023), which draws upon global and local best practices, and provides a framework for insurers to set net zero targets across their operations, investments, supply chains and underwriting, with a focus on substantially reducing emissions this decade.⁶¹
- 5.79 The ANU Institute for Climate, Energy & Disaster Solutions (the Institute) emphasised that increased global temperatures are linked to increased frequency and severity of weather extremes. The Institute drew the committee's

⁵⁸ Productivity Commission, *Submission 10*, p. 8.

⁵⁹ Joint Select Committee on Northern Australia, *First Report on the Cyclone Reinsurance Pool*, March 2023, p. 47.

⁶⁰ Insurance Council of Australia, *Submission 2*, p. 1.

⁶¹ Insurance Council of Australia, *Submission 2*, p. 2.

attention to the Intergovernmental Panel on Climate Change's (IPCC) finding that human activities, primarily greenhouse gas (GHG) emissions, have unequivocally caused global temperature increases, and stressed the importance of federal and state governments pursuing rapid and concerted efforts to reduce emissions in line with Australia's commitments under the Paris Agreement.⁶²

- 5.80 Similarly, Bushfire Survivors for Climate Change argued that there is an urgent need to 'speed up' emissions reduction, including phasing out fossil fuels, as well as the clean energy transition, warning that the rising cost of home insurance is 'merely the tip of the proverbial iceberg when it comes to the future costs of unnatural disasters caused by climate change'.⁶³
- 5.81 The Actuaries Institute agreed, advising that 'greenhouse gas emissions have an impact on climate change impacts, so it's important to try to keep those minimum temperature increases as globally agreed.'⁶⁴
- 5.82 Australia is a signatory to the Paris Agreement and the government has committed to realising this commitment to keep global warming below 2 degrees. Some submitters made clear that a more ambitious commitment to reducing greenhouse gas emissions, including speeding up the update of renewable energy, would be more advantageous.

Consideration of a 'polluter pay' model

- 5.83 To subsidise and share the cost of rising insurance premiums, several submitters suggested that the government consider requiring fossil fuel companies to pay a levy or otherwise contribute to mitigation measures to compensate for the pollution caused by their industries.⁶⁵
- 5.84 One example of this model is legislation passed in Vermont, United States earlier this year which aims to hold major fossil fuel companies in that state accountable by requiring them to pay the costs of damages associated with their emissions.⁶⁶ The legislation was introduced partly in response to record flooding

⁶² ANU Institute for Climate, Energy & Disaster Solutions, *Submission 30*, p. 7.

⁶³ Bushfire Survivors for Climate Change, *Submission 34*, p. 7.

⁶⁴ Ms Elayne Grace, Chief Executive Officer, Actuaries Institute, *Proof Committee Hansard*, 20 September 2024, p. 23.

⁶⁵ See, for example, 350 Australia, *Submission 55*, p. 2-3; Mr Rod Campbell, Research Director, Australia Institute, *Proof Committee Hansard*, 30 September 2024, p. 21; Chels Hood Withey, President, Community Disaster Action Group, *Proof Committee Hansard*, 8 August 2024, p. 15.

⁶⁶ National Caucus of Environmental Legislators, *New York and Vermont to Increase Accountability for Major Climate Polluters*, nceleenviro.org/articles/new-york-and-vermont-to-increase-accountability-for-major-climate-polluters/ (accessed 5 November 2024).

in Vermont in July 2023 and will allow Vermont to charge companies for their share of emissions over the past three decades, with the funds channelled into resilience and mitigation measures.⁶⁷

- 5.85 350 Australia agreed that coal, oil and gas companies should pay for the cost of climate disasters through a levy on their production and import of fossil fuels. Its Chief Executive Officer, Ms Lucy Manne, explained:

Coal, oil and gas companies, we know, are responsible for more than 75 per cent of global greenhouse gas emissions. In Australia they've been making record profits for the past few years, including more than \$30 billion in 2022 alone.⁶⁸

- 5.86 350 Australia indicated that the levy contributions could be used towards climate disaster recovery in Australia and for more adaptation measures, noting that this would take some of the burden off individuals and communities in the most high-risk areas of the country.⁶⁹

- 5.87 The Australia Institute suggested a different model by way of a fossil fuel export levy. While also arguing in favour of ending fossil fuel subsidies and new fossil fuel projects, the Australia Institute proposed that a fossil fuel export levy of a dollar per tonne of embodied climate pollution be introduced. They explained that this would raise around \$1.5 billion per year, with the funds used to address the insurance affordability crisis, while also reducing climate risk.⁷⁰

- 5.88 The committee heard that some communities would be very supportive of measures to share to cost of climate risk with those contributing to it. For example, Chels Hood Withey, President of the Community Disaster Action Group in the Northern Rivers, recommended that:

Firstly, let's just tax them properly. They need to be taxed. They are paying no tax. It's quite embarrassing for our country that we've just sold off all of our stuff and are not reaping any of the benefits of the financial gain of our resources being stripped from the earth that are causing these disasters. Yes, absolutely they should pay. They should be paying for disasters.⁷¹

⁶⁷ National Caucus of Environmental Legislators, *New York and Vermont to Increase Accountability for Major Climate Polluters*, ncelenviro.org/articles/new-york-and-vermont-to-increase-accountability-for-major-climate-polluters/ (accessed 5 November 2024).

⁶⁸ Ms Lucy Mann, Chief Executive Officer, 350 Australia, *Proof Committee Hansard*, 30 September 2024, p. 28.

⁶⁹ Ms Lucy Mann, Chief Executive Officer, 350 Australia, *Proof Committee Hansard*, 30 September 2024, p. 28.

⁷⁰ Mr Rod Campbel, Research Director, Australia Institute, *Proof Committee Hansard*, 30 September 2024, p. 21.

⁷¹ Chels Hood Withey, President, Community Disaster Action Group, *Proof Committee Hansard*, 8 August 2024, p. 15.

Chapter 6

Committee view and recommendations

- 6.1 Throughout this inquiry, the committee heard first-hand about the impacts of climate-driven disasters on the lives of many Australians. The committee heard devastating stories of trauma and loss, and the continuing effects of major disasters, including the Black Summer bushfires and the Northern Rivers floods. The committee accepts that climate disasters are now inevitable in Australia and is deeply concerned about the rising frequency and severity of these disasters and their impact on lives and livelihoods.
- 6.2 Acknowledging the critical role of insurance in assisting disaster-stricken communities to recover and rebuild, the committee focused its attention on the insurance affordability crisis that is being experienced around the country.
- 6.3 As canvassed in this report, the rising cost of insurance is impacting people all over Australia, but particularly in disaster affected areas. The committee was astonished to hear that insurance premiums in some regions have increased by up to 400 per cent. Some witnesses shared that their insurance payments are higher than their mortgage repayments. Others disclosed that they cannot afford any insurance at all, or that despite their efforts seeking quotes to secure a level of protection, no insurance companies have agreed to take on the risk.
- 6.4 Submitters from around the country shared ideas for tackling this crisis, including local governments, researchers, industry experts, advocacy groups, legal organisations and the people living in disaster affected communities. The solutions they proposed range from calls for greater transparency and information sharing to significant industry reform and government support.
- 6.5 From the evidence provided, it is clear to the committee that the insurance affordability crisis is complex and will require a multifaceted approach, engagement at all levels of government, as well as the involvement of industries and risk-prone communities. For this reason, it is important that the government consider all of these recommendations together as a package and implement them accordingly.

Greater transparency and oversight

- 6.6 Throughout the inquiry, the committee heard overwhelming evidence about the need for greater transparency both from government and the insurance industry.
- 6.7 As a starting point, the committee recognises the importance of a free, accessible and up-to-date national climate risk map and database. Such a database would inform communities, councils, insurers and government so that they are better

able to prepare for climate disasters, respond to the aftermath and more easily identify infrastructure mitigation measures.

- 6.8 The committee understands that local governments in some parts of the country have catalogued local data. However, there is variability in the type of data available and such information is not always made available to the public.
- 6.9 A national database would serve as a tool to enable local communities to make informed decisions about where to live and would help inform how to best mitigate and prepare for the perils most likely to occur in a particular region.

Recommendation 1

- 6.10 The committee recommends that the Australian Climate Service and the National Emergency Management Agency work with all levels of government and industry to establish and maintain a national disaster risk map and database, covering all types of natural disasters in Australia, which is accessible to the public.**
- 6.11 In addition to a publicly available national database, the committee recognises the importance of greater transparency from insurance companies in relation to premium prices. The committee heard shocking examples of households receiving significantly varied insurance quotes from different companies (and sometimes the same company) for the same property. It also heard about premiums being increased by astonishing amounts each year, with little explanation of the methodology used to calculate these increases.
- 6.12 This lack of transparency is unacceptable in pricing for such an essential product in Australia. Not only does this mean that policyholders cannot make informed decisions about what they are purchasing, but it can also make it impossible to challenge pricing decisions.
- 6.13 To enable greater transparency in relation to insurance premiums, the committee recommends that insurance companies be required to provide a breakdown of premiums when offering insurance policies in Australia.

Recommendation 2

- 6.14 The committee recommends that insurance companies in Australia be required to provide policyholders with a sufficient breakdown and explanation of insurance premium costs, including details of price changes in response to resilience and disaster mitigation measures undertaken by the policyholder.**
- 6.15 The committee was also concerned to learn that regulators including the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) do not have oversight over premium pricing, as this is considered a commercial decision. Given the heightened risk

of price gouging in what is a national affordability crisis, the committee is of the view that independent oversight of premium pricing is required.

- 6.16 The committee is aware that the Australian Competition and Consumer Commission (ACCC) has been directed to monitor and report on the efficacy of the Cyclone Reinsurance Pool and premiums prices. However, it does not have a role in monitoring or reporting on insurance prices in the wider insurance market. The committee considers that given its expertise and mandate, the ACCC is well placed to take on this additional monitoring and oversight role.
- 6.17 The committee recognises that transparency on its own does not amount to oversight, however it considers that it is the crucial first step for appropriate oversight. For this reason, the committee recommends that the ACCC be empowered to monitor and report on insurance premium prices across Australia. As transparency is central to the issue of premiums, the committee recommends that the ACCC report on a quarterly basis and that its reports be published on its website.

Recommendation 3

- 6.18 The committee recommends that the Treasurer issue a Ministerial Direction to require the Australian Competition and Consumer Commission to monitor premium prices across Australia and to publish its monitoring reports on a quarterly basis on its website.**

Measures to target insurance affordability

- 6.19 The committee is cognisant that we are in an insurance affordability crisis with Australians all over the country struggling to pay for basic coverage. A growing number are underinsured while others cannot afford insurance at all.
- 6.20 The committee recognises that taxes on general insurance, including stamp duty, are contributing to premium price rises. It agrees that abolishing or, at least, reducing these taxes on general insurance could trigger an immediate reduction to the cost of premiums while addressing concerns raised by witnesses to the inquiry about the inequity of such taxation.
- 6.21 The committee appreciates that the states and territory governments are responsible for taxes on insurance. Therefore, the committee recommends that the responsible minister engage with state and territory counterparts with a view to abolishing these taxes in the longer term.
- 6.22 Alternatively, if this is not possible, the committee suggests that consideration be given to how taxes on general insurance can be calculated more equitably, to ensure that those paying the highest in premiums are not also required to pay the highest amount of tax.

Recommendation 4

- 6.23 The committee recommends that the Australian Government pursue the abolition of general taxes on insurance through the Housing and Homelessness Ministerial Council and other relevant ministerial council arrangements.**
- 6.24 The committee recognises that the Cyclone Reinsurance Pool serves as another mechanism to address insurance affordability. However, it also appreciates the concerns raised in relation to the operationalisation of the pool, including the view that it fails to create incentives for involved insurers to contribute to disaster mitigation and resilience measures.
- 6.25 Therefore, the committee recommends that a review of the reinsurance pool take place with a view to incorporating the lessons learned before expanding the pool to include other disasters including floods and fires. The review should also consider the feasibility of incorporating incentives for insurance companies to invest in mitigation and resilience measures.

Recommendation 5

- 6.26 The committee recommends that Treasury expand the Cyclone Reinsurance Pool to cover all natural disasters. The expansion should:**
- **take account of lessons learned from the operationalisation of the current pool; and**
 - **incorporate incentives for participating insurance companies to invest in disaster mitigation and resilience measures.**

Mitigation and resilience to reduce the impact of climate disasters

- 6.27 The committee acknowledges that Australia will face climate related disasters into the future. However, as climate change is exacerbating these disasters, they will continue to grow in frequency and severity. Therefore, the country must be prepared.
- 6.28 To this end, the committee agrees with the majority of submitters to this inquiry who emphasised the need for greater investment in disaster mitigation and resilience measures by all levels of government, businesses and households.
- 6.29 The committee is aware of existing programs, in particular the Disaster Ready Fund, administered by the National Emergency Management Agency of Australia, that is progressing disaster mitigation infrastructure and systemic risk reduction projects already. The committee considers that it would be advantageous to expand this program to ensure that essential mitigation and resilience work can be undertaken more quickly, before the next major disaster.

Recommendation 6

6.30 The committee recommends that the Australian Government increase the Disaster Ready Fund to \$400 million per annum for investment in disaster mitigation and resilience measures.

6.31 The committee also considered the significant weight of evidence that it received about the importance of land use and planning laws in ensuring that new developments are not being progressed in high-risk areas, which the committee heard is currently the case in many parts of the country.

6.32 Not only is this practice of developing in high-risk areas creating a significant problem for future communities that will be living in those areas, but the committee considers that this will exacerbate the current problems with insurance affordability.

6.33 For these reasons, the committee strongly supports changes to land-use and planning laws to enforce a ban on new development in high-risk areas, such as known floodplains.

Recommendation 7

6.34 The committee recommends that the Australian Government pursue the matter of land use and planning laws, including the feasibility of prohibiting future development in high-risk areas, through the Housing and Homelessness Ministerial Council and other relevant ministerial council arrangements.

The 'polluter pays' model

6.35 To subsidise and share the cost of rising insurance premiums, the committee agreed that fossil fuel companies should be required to pay a levy or otherwise contribute to disaster mitigation measures to compensate for the pollution caused by their industries.

6.36 The committee received evidence that even a modest levy on emissions would raise considerable funds to go towards addressing Australia's climate risk and the insurance affordability crisis. In fact, the revenue raised could be reinvested into the disaster mitigation and resilience measures identified in this report.

6.37 The committee understands that there are different models for how such a levy could operate. Therefore, it recommends that, as a priority, options for how such a levy could be implemented in Australia be prepared for consideration.

Recommendation 8

6.38 The committee recommends that Treasury develop options for a levy on coal and gas extraction companies, based on the annual energy content they have extracted, from which the funds raised would be invested in disaster mitigation and resilience measures, and the cost of rising insurance.

Senator Mehreen Faruqi

Chair

Labor Senators' Additional Comments

- 1.1 Labor Senators would like to extend our thanks to the Chair, fellow Committee members, the secretariat and those who made submissions and provided evidence to the Committee.
- 1.2 We would particularly like to acknowledge the members of disaster impacted communities who shared their stories with us, despite the trauma they have endured and continue to endure.

Greater transparency and oversight

- 1.3 Labor Senators begin by recognising the substantial work of the House of Representatives Standing Committee on Economics inquiry (House inquiry) into insurers' responses to 2022 major floods claims, which took place prior to and concurrently with this Committee's work.¹
- 1.4 Following 23 hearings over a year of investigation, the House inquiry received 108 submissions and 60 supplementary submissions, with its 457-page final report tabled in October 2024, putting forward 86 recommendations, proposing a significant overhaul for how Government and the insurance sector respond to natural disasters.
- 1.5 Labor Senators support the findings and recommendations of the House inquiry, and note it conducted a substantially more thorough investigation of the issues canvassed by this committee.
- 1.6 We note that recommendations 1 and 2 of this report, concerning improving the quality of flood and other disaster mapping, and introducing greater transparency to premium pricing, align broadly with recommendations 62 and 23 of the House inquiry. Similarly, recommendation 4 of this report, although like recommendation 7 it is a matter for State and Territory governments, aligns broadly with recommendation 86 of the House inquiry.
- 1.7 With respect to mapping, Labor Senators note the Albanese Government is already working with the insurance industry to develop a detailed map of risk and insurance cover across Australia. Simultaneously, NEMA is also developing a National Natural Disaster Risk Profile to create Australia's first authoritative understanding of current national hazard risk to prioritise government mitigation efforts.²

¹ House of Representatives Standing Committee on Economics, [Flood failure to future fairness: Report on the inquiry into insurers' responses to 2022 major floods claims](#), October 2024.

² National Emergency Management Agency, *Submission 14*, p. 7.

- 1.8 There are also many other recommendations aimed at improving transparency and oversight in the insurance industry within the House inquiry's report, which were not explored by this committee.

Improving insurance affordability

- 1.9 The Albanese Government has taken an unprecedented number of steps to address insurance affordability, and disaster resilience and mitigation. Its first October 2022-23 budget allocated \$22.6 million over four years for initiatives to improve insurance affordability and availability.³
- 1.10 One of the initiatives established in that budget was the Hazards Insurance Partnership (HIP). The HIP brings together representatives of the Australian Government and the insurance sector to tackle issues at the intersection of hazard risk and insurance. The HIP aims to inform effective and evidence-based risk reduction activity and investment, with a view to influencing insurance affordability and availability.
- 1.11 The Insurance Council of Australia noted the HIP is already improving understanding of affordability, under-insurance and non-insurance issues.⁴ Similarly, the Australian Prudential Regulation Authority (APRA) noted the work of the HIP to address risk and affordability, but acknowledged that the impact of such initiatives can take time to flow through to premium benefits for consumers.⁵
- 1.12 As part of the 2024-25 Budget, the Albanese Government established the Insurance Affordability and Natural Hazards Risk Reduction Taskforce, to develop an integrated, cross-government approach to minimising the impacts of disasters on communities, and address insurance costs driven by more frequent and intense weather events.⁶ The Taskforce is led by the Department of Prime Minister and Cabinet and will be informed and complimented by work already underway through the HIP.
- 1.13 Additionally, the Albanese Government has implemented the Cyclone Reinsurance Pool (the Pool), which commenced operating on 1 July 2022 with Commonwealth backing of up to \$10 billion per annum, and now includes all

³ Senator the Hon Murray Watt, Minister for Emergency Management, and the Hon Stephen Jones MP, Assistant Treasurer and Minister for Financial Services, '[Landmark funding to help reduce insurance costs](#)', *Media Release*, 26 October 2022.

⁴ Insurance Council of Australia, *Submission 2*, p. 4.

⁵ Australian Prudential Regulation Authority, *Submission 15*, p. 3.

⁶ The Hon Stephen Jones MP, Assistant Treasurer and Minister for Financial Services, '[Insurance Affordability and Natural Hazards Risk Reduction Taskforce](#)', *Media Release*, 31 May 2024.

large insurers, and by the end of this year will include all remaining smaller insurers that have not yet joined.⁷

- 1.14 Although the Australian Reinsurance Pool Corporation (ARPC) highlighted that it is already providing about \$5.8 million in discounts per annum for risk mitigations to individual policy holders,⁸ the feedback from many submitters was that the scheme needs to be improved, or possibly even expanded. With that said, the ARPC shared that the average cyclone pool premiums for high-risk policies have reduced by 38 per cent, in comparison with the period prior to the establishment of the Pool.⁹
- 1.15 The Australian Competition and Consumer Commission has been tasked to monitor the Pool's impact on insurance premiums. Its most recent report, published in September 2024, concluded that while the Pool is delivering premium relief for some higher risk policyholders, those savings have been offset by varying extents by other cost increases.¹⁰
- 1.16 The complexities associated with the Pool are highlighted by the fact that the Morrison Government, in establishing the scheme, promised premium price reductions of up to 58 per cent, when in fact the secret modelling it commissioned was later revealed to show this was not the case, and it showed some premiums may even increase.¹¹
- 1.17 Labor Senators note this report's recommendation 5, that the Pool should be expanded, but also note the feedback from numerous submitters to this inquiry including the Productivity Commission, about potential unintended consequences of the Pool,¹² and the mixed results reported by the ACCC about the Pool's efficacy to-date.

Investing in disaster resilience and mitigation

- 1.18 In addition to its investment in directly improving insurance affordability, the Albanese Government has made record investments in disaster resilience and mitigation.

⁷ Dr Christopher Wallace, Chief Executive Officer, Australian Reinsurance Pool Corporation, *Committee Hansard*, 20 September 2024, p. 13.

⁸ Dr Christopher Wallace, Chief Executive Officer, Australian Reinsurance Pool Corporation, *Committee Hansard*, 20 September 2024, p. 13.

⁹ Mr Pulkit Jain, Head, Actuarial, Australian Reinsurance Pool Corporation, *Committee Hansard*, 20 September 2024, p. 13.

¹⁰ Australian Competition and Consumer Commission, [Insurance monitoring: Third report following the introduction of a cyclone and cyclone-related flood damage reinsurance pool](#), September 2024.

¹¹ The Hon Stephen Jones MP, Assistant Treasurer and Minister for Financial Services, '[Modelling released for Reinsurance Pool](#)', *Media Release*, 30 June 2022.

¹² Productivity Commission, *Submission 10*, p. 8.

- 1.19 The Albanese Government is investing \$1 billion over five years through the Disaster Ready Fund (DRF), which commenced in September 2022, in resilience and mitigation projects. The DRF is further co-funded by State and Territory Governments, and DRF rounds one and two have delivered approximately \$400 million per annum in co-funded investment.¹³ Labor Senators note that this report's recommendation 6 calls for \$400 million of DRF spending per annum, which is already being delivered.
- 1.20 Labor Senators note the DRF has started delivering insurance premium relief since the first funding was announced last year. For example, one funded program is the Queensland Household Resilience Program, delivered by the Queensland Government, which assists homeowners in coastal parts of central and northern Queensland to improve the resilience of their homes against cyclones. Eligible homeowners who have had resilience works approved have reported an average insurance premium saving of 9 per cent.¹⁴
- 1.21 In addition to the DRF, the Commonwealth provides funding directly to State and Territory governments through the Disaster Recovery Funding Arrangements (DRFA). Among the funding delivered is \$741 million co-funded with the Queensland Government for the Queensland Resilient Homes Fund, and \$830 million co-funded with the New South Wales Government for the New South Wales Resilient Homes Program.¹⁵
- 1.22 In addition to the billions of dollars in funding provided through the DRA and DRFA, the Commonwealth has funded or launched other smaller initiatives, such as \$40 million for the North Queensland Strata Title Resilience Pilot Program, which will fund up to 50 per cent of disaster mitigation works for strata properties, with the remainder being co-funded by the Queensland government and Strata titleholders.¹⁶
- 1.23 The Albanese Government has also launched other initiatives to improve resilience standards, including commencing work through the Planning Ministers Meeting on national principles for considering disaster and climate risk as part of land use planning and building reforms.¹⁷ This ongoing work encapsulates this committee's recommendation 7. There is also ongoing work

¹³ Senator the Hon Murray Watt, Minister for Emergency Management, '[Nearly \\$400 million for disaster preparedness announced under new Disaster Ready Fund](#)', *Media release*, 7 June 2023.

¹⁴ National Emergency Management Agency, *Submission 14*, p. 7.

¹⁵ National Emergency Management Agency, *Submission 14*, p. 7.

¹⁶ National Emergency Management Agency, *Submission 14*, p. 7.

¹⁷ The Hon Catherine King MP, Minister for Infrastructure, Transport, Regional Development and Local Government, '[Planning Ministers' Meeting February 2024 Communiqué](#)', 27 February 2024.

being undertaken by Building Ministers on making climate resilience an objective of the Australian Building Codes Board.¹⁸

- 1.24 In addition to the direct protection these investments and initiatives provide to residents in disaster prone areas, investments in resilience and mitigation at the household or community level should decrease risk exposure, and deliver a corresponding decrease in household premiums. This connection was highlighted by most submitters to the inquiry, including insurers, local governments, academics, and groups representing policyholders.
- 1.25 However, despite the significant investment from federal, state and local governments, and by policyholders and strata titleholders, in resilience and mitigation measures, there was widespread concern that these investments are not flowing through to lower premiums. This was best illustrated by Murweh Shire Council's evidence about the town of Charleville. The construction of a flood levee, house raisings, river clearings and the diversion of a gully resulted in no homes being inundated this year despite extensive rainfall, yet insurance premiums have risen by as much as over 400 per cent.¹⁹ This experience was echoed by many inquiry participants, including the Local Government Association of QLD²⁰ and Lismore City Council²¹.
- 1.26 Others, such as Ballina Shire Council and the New School of Arts Recovery Support Service, raised alarm about increases to insurance premiums being handed to homeowners who have not even been impacted by floods or other disasters, based on their postcode or suburb.²²
- 1.27 While these issues were not covered in depth by this Committee's report, we note they were extensively explored by the House inquiry, and support its recommendations 76 to 80 regarding improving insurers' consideration of mitigation measures in pricing.
- 1.28 Similarly, while this report noted the issues that were raised about insurers requiring policyholders to rebuild like-for-like after making a claim, rather than allowing them to rebuild using superior mitigation materials and practices, even at their own expense, the report did not make a recommendation. Labor Senators support the House inquiry's recommendation 26, which suggested that

¹⁸ National Emergency Management Agency, *Submission 14*, p. 9.

¹⁹ Cr Shaun Radnedge, Mayor, Murweh Shire Council, *Committee Hansard*, 9 August 2024, p. 8.

²⁰ Ms Crystal Baker, Manager, Strategic Policy, Local Government Association of Queensland, *Committee Hansard*, 9 August 2024, p. 2.

²¹ Cr Steve Krieg, Mayor, Lismore City Council, *Committee Hansard*, 8 August 2024, p. 4.

²² Mr Paul Hickey, General Manager, Ballina Shire Council, and Cr Sharon Cadwallader, Mayor, Ballina Shire Council, *Committee Hansard*, 8 August 2024, p. 4; Mrs Kristy Morrow, Case Manager, New School of Arts Recovery Support Service, *Committee Hansard*, 8 August 2024, p. 42.

the General Insurance Code of Practice be amended to require insurers adopt a more flexible approach in relation to building back better.

Fees charged to Strata titleholders

1.29 Throughout the inquiry, the Committee heard about the impact that the high cost of strata fees and commissions is having on consumers. Unfortunately, this was not reflected in the Committee's recommendations.

1.30 The Committee heard evidence of intermediary charges soaring to rates of 40 percent or more. This is despite industry expert John Trowbridge's view that:

20 [per cent] is more than brokers need. They pay part of that to the strata managers. The brokers should be able to exist on fees of the order, let's say, for the sake of this argument, which is not to be too precise, something of the order of 10 [per cent] is all they need.²³

1.31 As Ms Madeleine Serle, President of Maribyrnong Community Recovery Association, explained:

Insurance is replete with this supercharging of costs because it's insurance and it's not a managed subcontract process. So, absolutely, there is no need for those egregious and usurious approaches to costing in insurance.²⁴

1.32 Several witnesses supported greater transparency around commissions, fees and other charges to improve outcomes for consumers.

1.33 As summarised by representatives from Allianz Australia:

We are aware that the level of transparency that's provided, ultimately, to lot holders and body corporates is not always as complete as what we would think is best practice, and we would agree with a lot of the observations around the opportunity for improvement in transparency, and that entire value chain is definitely something that could be looked at.²⁵

1.34 Representatives from the Insurance Council of Australia suggested:

... it would be appropriate for every owners' corporation to receive full transparency around the fees and charges being paid in that supply chain in a standard form so that they're clearly understandable and comparable.²⁶

1.35 In line with this evidence, we recommend the Australian Government should examine approaches to improve the transparency of the disclosure regime for strata managers and brokers.

²³ Mr John Trowbridge, private capacity, *Committee Hansard*, 20 September 2024, p. 33.

²⁴ Ms Madeleine Serle, President, Maribyrnong Community Recovery Association, *Committee Hansard*, 30 September 2024, p. 7.

²⁵ Mr James Fitzpatrick, Chief Data Officer, Allianz Australia, *Committee Hansard*, 20 September 2024, p. 44.

²⁶ Ms Alexandra Hordern, General Manager, Regulatory and Consumer Policy, Insurance Council of Australia, *Committee Hansard*, 1 October 2024, p. 27.

Recommendation 9

1.36 State and territory governments should review governance in strata schemes with a view to ensuring best practices which protect consumers and facilitate greater levels of transparency and accountability for strata residents. The Australian Government should consider the adequacy of the insurance disclosure regime for strata managers and brokers.

The proposed 'polluter pay' model

- 1.37 Labor Senators agree with the proposition that Australians living in areas impacted by climate-exacerbated disasters must not be left to bear the financial brunt of climate change themselves. The significant investments made by Commonwealth, State, Territory and Local Governments highlight this commitment.
- 1.38 Labor Senators agree in principle that securing funding from fossil fuel producers to contribute towards supporting policyholders is an idea that has merit. However, we cannot endorse such a significant change to Australia's taxation system when it is not supported by any modelling or evidence of its intended or unintended consequences.
- 1.39 The proposal is particularly incoherent when read in conjunction with other Greens policies, such as an immediate moratorium on projects and the phasing out of existing coal exports by 2030, which combined would presumably lead to the proposed levy raising little to no revenue. In fact, the existence of this levy could act as a perverse incentive to future Governments to prop up the thermal coal sector.
- 1.40 The Albanese Government has dedicated unprecedented resources to expediting the transition to renewable energy, and to meeting Australia's net zero targets. This stands in stark contrast to the Liberal and National opposition, whose leader Mr Dutton famously joked about people in high-risk communities having 'water lapping at [their] door'.²⁷
- 1.41 The Liberals and Nationals have made their opposition to renewable energy clear. Their risky nuclear plan would not deliver a single watt of new energy for at least two decades, entrenching Australia's dependence on coal and gas for many years to come, and even then would only finally deliver 4 per cent of Australia's energy needs. This would have disastrous impacts for the climate and for residents of high-risk communities, with flow on impacts for insurance premiums being compounded by the massive spike in power bills nuclear would inflict. Exacerbating these concerns is the fact that the Liberal and National parties have yet to release any modelling or analysis of the potential

²⁷ Francis Keany, ['Peter Dutton overheard joking about rising sea levels in Pacific Island nations'](#), *ABC News*, 11 September 2015.

impact of earthquakes or other natural disasters on their proposed nuclear power plants.

- 1.42 Rather than risky, uncostered nuclear plans, or vague unmodelled slogans about polluter taxes, Labor Senators support the Albanese Government's focus on accelerating the transition to renewable energy, while investing in ways to improve disaster mitigation and resilience, and reduce insurance premiums.

Senator Sheldon
Deputy Chair
Senator for New South Wales

Senator Nita Green
Senator for Queensland

Liberal Senators' Additional Comments

Foreword

1.1 The view of Liberal Senators on the recommendations is as follows:

- Agree with recommendations 1, 3, 4 and 7.
- Agree in principle recommendations 2 and 6.
- Do not agree to recommendation 5 at this time. A further, comprehensive investigation of the economic and social benefits and disadvantages of broadening the reinsurance pool is required.
- Do not agree with recommendation 8.

1.2 We thank the Chair, Deputy Chair and all members of the committee for their collegiality throughout the inquiry. The comments of Liberal Senators reflect our view on the evidence and is no reflection on the conduct of the inquiry, or the views of our colleagues. We thank the Chair and Deputy Chair for their leadership of this important Select Committee inquiry.

1.3 We join the Committee in thanking all witnesses and submitters who participated in the inquiry. Our particular thanks go to those who gave direct evidence of their lived experience of recent natural disasters in Australia, and its ongoing impact on their lives.

Introduction

1.4 Natural disasters are a feature of life in Australia. Insurance plays an important role in managing the risks of these natural disasters, and climate risk is having an impact on insurance premiums in Australia.

1.5 According to data commissioned by the Insurance Council of Australia (ICA), eight of the top 20 most expensive natural disaster events, normalised to 2022/23 levels, have occurred since the year 2000, with six of those eight occurring since 2010 (inclusive).¹ Each of these disasters represents real impacts on Australians and their communities, and the difficult reality of dealing with the aftermath of natural disasters.

1.6 The evidence before the committee is that natural disaster risk associated with climate change is increasing, and likely to continue to do so. The increasing frequency and severity of natural disasters will inevitably lead to increased pressure on insurance.

¹ Insurance Council of Australia, *ICA Historical Catastrophe list*, September 2024, insurancecouncil.com.au/wp-content/uploads/2024/10/ICA-Historical-Normalised-Catastrophe-September-2024.xlsx (accesses 25 November 2024).

Purpose of Insurance

- 1.7 Insurance serves a dual purpose, as the Productivity Commission made clear in its submission. It provides financial cover against risk for households and individuals. Through its price, it also sends an important market signal about the likelihood of that risk.²
- 1.8 This dual purpose of insurance must be kept in mind, and any public intervention into the insurance market must be aware of distorting this second purpose and creating a hazard through that distortion. As the Productivity Commission explained, intervention in the market can – unintentionally or otherwise – result in ‘subsidising the movement of individuals, households and businesses into harm’s way’.³
- 1.9 Similar evidence was provided by the Actuaries Institute, who noted:
- Government interventions have to be very carefully considered. We have seen, globally, where sometimes it has gone wrong. The first thing is that you don't want a government intervention that encourages property development in flood-prone areas. We need to draw a line in the sand. You need to have appropriate building codes. You can't have a system that masks those underlying risks, and it has to be used effectively to reduce risk.⁴
- 1.10 Liberal Senators are concerned that a focus only or substantially on the ‘reduction of financial impacts of disaster’ carries with it the risk of putting or leaving more Australians in areas highly exposed to natural hazards, ultimately increasing the financial cost and emotional trauma and impact of natural disasters.

Pressures on Premiums

- 1.11 The committee heard evidence that insurance premiums reflect many factors, not only increased climate risk. In their submission, the ICA highlighted four key factors contributing to the recent rise in premiums: the impact of extreme weather events, growing asset values in high-risk areas, higher inflation and rising global reinsurance premiums.⁵
- 1.12 Another factor raised in evidence was the increased granularity of risk assessments to individual postcodes and properties, aided by better data. Whilst some homes and locations have benefited from this, it has lessened the ‘pooling’ and therefore cross-subsidisation of risk.

² Productivity Commission, *Submission 10*, p. 8.

³ Productivity Commission, *Submission 10*, p. 8.

⁴ Ms Elayne Grace, Chief Executive Officer, Actuaries Institute, *Committee Hansard*, 20 September 2024, p. 20.

⁵ Insurance Council of Australia, *Submission 2*, p. 3.

- 1.13 High inflation has played a role. The ICA highlighted that higher inflation, particularly in the construction sector, has led to increased costs for and rebuilding homes, resulting in higher premiums.⁶ With high inflation in Australia over the past few years and the effect this has had on insurance premiums, one consequence is that households which are experiencing home insurance affordability stress has risen from 10 per cent in March 2022 to 15 per cent in March 2024, according to the Actuaries Institute.⁷
- 1.14 Australian insurance providers use re-insurers to cover their risk. This is the standard practice across the world. The re-insurance cost is part of the cost base of Australian insurers. The re-insurance market is global in nature, and has seen significant price rises in recent years, the result of a high number of payouts. The ICA noted that reinsurance costs rose to a 20-year high in 2023, with Australian insurers seeing costs increase up to 30 per cent. Whilst they expect the reinsurance market to soften in 2025, the increased costs of re-insurance have been passed on to Australian policy holders.⁸
- 1.15 Climate change does play a role in increasing premiums. As the ICA noted: ‘as risk from extreme weather worsens, so do pressures on insurance affordability in risk-exposed areas of Australia’.⁹ But this is only one part of the picture. Evidence from Suncorp Group indicated that in terms of the recent annual impact on premiums, the higher risk profile created by climate change accounted for less than 1 per cent of price increases.¹⁰
- 1.16 Allianz provided similar evidence, noting that an ‘insurance premium reflects the likelihood and cost of claims from different causes during the period of cover’.¹¹ They went on to say that longer-term climate risk is not included in the pricing of their products, which are priced on an annual basis for the year ahead only, and premiums are set based on historical claims experience and the potential costs of extreme weather events.¹²
- 1.17 Liberal Senators note that, whilst climate risks are expected to increase over time, the factors involved in the recent rising cost of insurance premiums are more complicated. Insurance premiums are set on an annual basis and do not generally reflect future risk. Most of the recent growth in premiums is more

⁶ Insurance Council of Australia, *Submission 2*, p. 3.

⁷ Actuaries Institute, *Home Insurance Affordability and Home Loans at Risk Report*, August 2024, p. 4.

⁸ Insurance Council of Australia, *Submission 2*, p. 3.

⁹ Insurance Council of Australia, *Submission 2*, p. 2.

¹⁰ Dr Rhys Whitley, Scientific Specialist, Suncorp Group, *Committee Hansard*, 9 August 2024, p. 20.

¹¹ Allianz Australia Insurance Lt, *Submission 39*, p. 2.

¹² Allianz Australia Insurance Lt, *Submission 39*, p. 3.

attributable to market forces, whilst climate change presents a future risk to insurance pricing.

- 1.18 Liberal Senators do support in principle the calls from witnesses for there to be greater transparency in how insurers are calculating price increases, and the drivers of price increases on insurance renewals. Transparency around pricing will be a useful tool to customers seeking to better understand their risk profile, and options available to them for ongoing insurance.

General Taxes on Insurance Premiums

- 1.19 In addition to increased and sustained pressures on insurance premiums in recent years the committee heard clear evidence that taxes and levies add considerably to the cost of home insurance policies.¹³ As the price of premiums has risen, so too has the tax charge on them (being levied as a percentage of the base premium), putting considerable pressure on the affordability of premiums. These taxes are considered both inefficient and are in many instances regressive in nature.¹⁴
- 1.20 The Actuaries Institute notes that, in New South Wales for example, the mean home insurance premium is \$2,946, of which \$855 (or 29 per cent) is stamp duty, levies and GST. (Noting that NSW is the only state to levy an Emergency Services Levy on home insurance at 17.5 per cent) On the national mean premium of \$2,774, general taxes account for \$582 or 20 per cent of the premium price.¹⁵
- 1.21 The below table from the Actuaries Institute's Home Insurance Affordability and Home Loans at Risk – August 2024' report and shows the breakdown of mean insurance premiums across Australian jurisdictions.¹⁶

¹³ Mr Tyrone Shandiman, Chair, Australian Consumers Insurance Lobby, *Committee Hansard*, 20 September 2024, p. 26.

¹⁴ Insurance Council of Australia, *Submission 2*, p. 4.

¹⁵ Actuaries Institute, *Home Insurance Affordability and Home Loans at Risk Report*, August 2024, p. 9.

¹⁶ Actuaries Institute, *Home Insurance Affordability and Home Loans at Risk Report*, August 2024, p. 9.

Table 2.2 – Home insurance premiums by state (\$)

	Estimated mean by state								Australia	
	NSW	VIC	QLD	SA	ACT	NT	TAS	WA	Mean	Median
Storm	441	171	389	84	283	284	161	319	311	279
Riverine flood (non-cyclonic)	186	77	204	98	28	101	74	58	136	0
Cyclone	14	0	297	0	0	509	0	204	89	0
Earthquake	46	56	17	56	83	54	22	53	44	46
Bushfire	63	23	43	18	11	23	81	47	43	0
Non-peril losses	800	622	983	758	800	781	622	983	803	800
Other insurer cost components ¹	541	766	1,249	499	462	1,708	512	737	765	616
Stamp duty, levies and GST ²	855	360	633	334	167	727	309	504	582	470
Total premium	2,946	2,075	3,815	1,848	1,833	4,186	1,781	2,905	2,774	2,199
<i>Stamp Duty</i>	9%	10%	9%	11%	0%	10%	10%	10%		
<i>Emergency Services Levy</i>	17.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		

1.22 Liberal Senators agree with the committee that general taxes on insurance including stamp duty should be removed from insurance products, noting these taxes are the responsibility of the states. It is further noted that there are a number of reviews and reports from other inquiries that have made substantially the same recommendation.

Flood insurance

1.23 As a home is the most valuable asset many Australians will own, it is reasonable to expect homeowners will insure this asset. At the macro level, home insurance in Australia remains affordable relative to the value of the asset, even though there is quite a wide variation in average price by jurisdiction (see table above from the Actuaries Institute).

1.24 At the micro level, however, there is wide variation, with some locations and neighbourhoods facing premiums that make insurance so prohibitive in price to be unaffordable. This is especially true for flood insurance in areas prone to flooding, such as in Ballina and Lismore.

1.25 It is important to acknowledge that flood insurance remains a relatively recent product in Australia. Allianz's evidence was that they started rolling out flood insurance in home insurance in 2012.¹⁷ This followed the 2011 Brisbane floods in which 'virtually no-one' had flood cover. Evidence from Mr Trowbridge indicates Suncorp began offering flood insurance only in 2008, with most other insurers following after 2011.¹⁸

1.26 Whilst the evidence did point to some insurers failing to consider flood mitigation efforts in setting premiums, there is no evidence before the

¹⁷ Mr Nicholas Scofield, Chief Corporate Affairs Officer, Allianz Australia, *Committee Hansard*, 20 September 2024, p. 46.

¹⁸ Mr John Trowbridge, personal capacity, *Committee Hansard*, 20 September 2024, p. 31.

committee that the premium pricing for homes potentially affected by flooding is not broadly set in recognition of the potential risks.

Reinsurance Pool

- 1.27 The Productivity Commission has warned of the risks associated with the subsidy of insurance premiums. One of the many consequences identified by the Commission that especially concerned Liberal Senators, was the possible distortion of insurance pricing which encouraged people to move to high-risk areas.
- 1.28 There were submissions that viewed the impact of the Cyclone Reinsurance Pool on insurance premiums favourably. The Productivity Commission recommended the pool be phased out.
- 1.29 The Senators recommend that a comprehensive analysis of the effectiveness of the Pool be undertaken to determine whether its retention, expansion or phase out is the best policy response, having regard to ensuring affordable household and business insurance, as well as the potential consequences of price distortions in the insurance market.

Insurance Profits

- 1.30 There was no substantive evidence presented to the committee that insurers are taking in excessive profits off the back of increasing premiums. The ICA noted that 'APRA has calculated that insurers have lost \$640 million over the last 5 years from home insurance'.¹⁹ The ICA gave further evidence that rising premiums were not contributing to profit, indicated that for every \$1 in premiums on home and contents insurance, insurers pay out \$1.04 in claims.²⁰
- 1.31 In their submission, APRA notes that in each of the four financial years 2020-2023, the average insurers combined operation ratio exceeded 100 per cent, indicating they had made a loss.²¹
- 1.32 Insurance Australia Group Limited (IAG) gave evidence that for them home insurance had been unprofitable, and itself was consistently above 100 per cent combined operating ratio. They went on to state that other profitable parts of IAG's insurance business are effectively supporting their unprofitable home

¹⁹ Ms Kylie Macfarlane, Chief Operating Officer, Insurance Council of Australia, *Committee Hansard*, 1 October 2024, p. 22.

²⁰ Ms Kylie Macfarlane, Chief Operating Officer, Insurance Council of Australia, *Committee Hansard*, 1 October 2024, p. 22.

²¹ Australian Prudential Regulation Authority, *Submission 15*, p. 5.

insurance business. For every \$100 in premiums paid to IAG, they are paying \$107 in claims and costs.²²

- 1.33 Any suggestion that major insurers in Australia are inflating profits through higher home insurance premiums on customers is not supported by the evidence presented to the committee.

Mitigation and Disaster Readiness

- 1.34 As damage from many natural disasters is spread across communities, and rarely experienced by just one individual, mitigation is best performed at a community level where possible.
- 1.35 Community level mitigation is a more effective and economical way to reduce risk, particularly where Governments are bearing the funding burden.
- 1.36 Liberal Senators placed weight on the evidence which recommends that a suite of solutions is required, with collaboration across multiple stakeholders to ensure community climate adaptation and resilience. As noted by the Productivity Commission, the management of natural disaster risk 'is a shared responsibility between households, businesses, community and government'.²³
- 1.37 The Disaster Ready Fund (DRF), established by the Liberal Government in 2019 as the Emergency Response Fund, is a critical lever at the Government's disposal to support mitigation and disaster resilience across the country. At present, \$200 million is allocated to the DRF each year.
- 1.38 On 25 October 2024, the Government released the final report of the Independent Review of Commonwealth Disaster Funding (the Colvin Report). Whilst not considered in detail here, it is noted that the report recommends reform of the DRF which is 'hampered by accessibility and administrative limitations.'²⁴ The report further recommends that 'The DRF should be underpinned by an investment strategy that is informed by the Risk Profile', in addition to recommending an increase to the amount of funding allocated to the DRF.
- 1.39 It is the view of Liberal Senators that, whilst further funding the Disaster Ready Fund may well be necessary, it is critical to ensure existing funding is being used effectively. The first priority of the fund must be to support measures that maximise real mitigation, risk reduction and resilience in at-risk communities.

²² Mr George Karagiannakis, Executive Manager, Government and Industry Affairs, Insurance Australia Group Limited, *Committee Hansard*, 20 September 2024, p. 40.

²³ Productivity Commission, *Submission 10*, p. 3.

²⁴ Mr Andrew Colvin AO APM, Deloitte Touche Tohmatsu, *Independent Review into Commonwealth Disaster Funding Final Report*, October 2024 p. 20.

- 1.40 Whilst not expressing a view on the Colvin Report or its recommendations, Liberal Senators would support the prioritising of reforms to the DRF, before new funding is considered.

Land-use and planning

- 1.41 It is well established through evidence to this inquiry, and to other inquiries, that land-use and planning laws are critical to ensuring areas at high risk of natural disaster impacts are not used for new development across the country. Whilst changing land-use and planning laws is in the domain of the states and territories, it is critical that preventing future development in high-risk areas is pursued as a matter of priority.
- 1.42 In addition, consideration should be given to developing an ongoing resilient homes program to move people out of high-risk areas.

Coal and gas levy

- 1.43 The committee's report suggests the 'Vermont model' for requiring fossil fuel companies to pay the costs of damages associated with their emissions was drawn to the committee's attention by submitters. It is noted that the subject of a levy was only raised in one single submission to the inquiry.
- 1.44 Witnesses at hearings were invited to comment on the 'Vermont model' and the idea of a levy, and while in many cases offered support, this is not sufficient evidence to justify the committee's recommendation.
- 1.45 Liberal Senators oppose in principle the idea of a levy of this kind because the cost will likely be passed on to consumers through the higher costs of goods and services. Any review of the taxation of fossil fuel companies should be of a broader examination of Australia's taxation system as to whether it will play a key role in the transition to a carbon neutral future or arrest biodiversity loss.

Conclusion

- 1.46 While Liberal Senators recognise that in many cases, insurance premiums have been rising and rising fast, there is not the evidence to support wholesale interventions into the insurance market. At a macro level, the insurance market continues to function as it should. Particularly noting evidence about the core purposes of insurance, the insurance market is sending signals through its premiums about risks and reducing the financial impacts of natural disasters.
- 1.47 This is not to say that the insurance market is not without issues. In particular on the issues of transparency around premiums and the causes of price increases, and recognition of mitigation efforts in the price of premiums are issues on which the insurance industry should seek to improve upon.
- 1.48 Insurance affordability is a complex problem, but it is a real problem for too many Australian household. Insurers need to be more open transparent with their customers to ensure that they understand the risks to their property,

understand whether an insurer considers the risk to be increasing and why, and what options are available to mitigate risks at an individual and community level.

- 1.49 Climate change and the subsequent increasing risk of increasing natural disasters to Australian communities is a real threat to the affordability of insurance into the future. Measures that insurers and governments can implement now to increase awareness amongst consumers about their risk exposure on their homes are welcomed.

Senator Andrew McLachlan
Senator for South Australia

Senator Dave Sharma
Senator for New South Wales

Appendix 1

Submissions and Additional Information

- 1 Ms Heather Woodrow
- 2 Insurance Council of Australia
- 3 Small Business Development Corporation
- 4 Australian Consumers Insurance Lobby
- 5 Grain Producers SA
- 6 Strata Community Association (Qld)
- 7 Mr Ben Buggy
- 8 The Climate Risk Group
- 9 JLT Risk Solutions Pty Ltd (JLT Public Sector)
- 10 Productivity Commission
- 11 Owners Corporation Network of Australia Limited OCN
 - 11.1 Supplementary to submission 11
- 12 Association of Insurance Building & Engineering Consultants AiBEC
- 13 Department of Finance
- 14 National Emergency Management Agency NEMA
- 15 Australian Prudential Regulation Authority (APRA)
- 16 Housing Industry Association HIA
- 17 CSIRO
- 18 Local Government Association of Queensland LGAQ
- 19 WollemAI
- 20 Department of Climate Change, Energy, the Environment and Water
- 21 MarshMcLennan
- 22 Australian Red Cross
- 23 Suncorp
- 24 Peoples Climate Assembly
- 25 Scouts Australia
- 26 Department of Premier and Cabinet (Tasmania)
- 27 Strata Community Association SCA
- 28 Cairns Regional Council
- 29 NQ Strata Action Group
- 30 Australian National University Institute For Climate, Energy and Disaster Solutions
- 31 National Insurance Brokers Association NIBA
- 32 New South Wales Council for Civil Liberties NSWCCCL
- 33 Mrs Louise Stokes
- 34 Bushfire Survivors for Climate Action
- 35 Australian Financial Complaints Authority AFCA
- 36 Actuaries Institute

- 37 Townsville Lot Owners Group
- 38 Good Shepherd
- 39 Allianz Australia Insurance Ltd
- 40 Insurance Australia Group IAG
- 41 Queensland Farmers Federation
- 42 Mr John Trowbridge
- 43 Federation of Ethnic Communities' Councils of Australia FECCA
- 44 Willis Australia Ltd WTW
- 45 Financial Rights Legal Centre
- 46 Ms Tayanah O'Donnell, Dr Eleanor Robson
- 47 Name Withheld
- 48 CelsiusPro Australia
 - Attachment 1
- 49 Murweh Shire Council
- 50 Community Disaster Action Group
- 51 Australian Small Business and Family Enterprise Ombudsman ASBFEO
- 52 South West Queensland Regional Organisation of Councils (SWQROC)
- 53 National Legal Aid
- 54 Law Council of Australia
- 55 350 Australia
- 56 Name Withheld

Additional Information

- 1 NQ Strata Action Group, Additional information provided as background to submission (received 12 July 2024)
- 2 Actuaries Institute, Home Insurance Affordability and Home Loans at Risk, August 2024 (received 20 September 2024)
- 3 ANU Institute for Climate, Energy and Disaster Solutions, Findings from ANU Disaster Finance and Insurance Research Roundtable and Update (received 1 October 2024)
- 4 ANU Institute for Climate, Energy and Disaster Solutions, 2024 Research Brochure (received 1 October 2024)
- 5 Financial Counselling Australia, Submission to inquiry into insurers' responses to 2022 major flood claims (received 2 October 2024)

Answer to Question on Notice

- 1 ACCC - Answers to questions taken on notice at a public hearing on 20 September 2024, Sydney (received 4 October 2024)
- 2 ACS - Answers to questions taken on notice at a public hearing on 1 October 2024, Canberra (received 15 October 2024)
- 3 Allianz - Answers to questions taken on notice at a public hearing on 20 September 2024, Sydney (received 10 October 2024)

- 4 BOM - Answers to questions taken on notice at a public hearing on 1 October 2024, Canberra (received 4 October 2024)
- 5 Department of Home Affairs - Answers to questions taken on notice at a public hearing on 1 October 2024, Canberra (received 4 October 2024)
- 6 IAG - Answers to questions taken on notice at a public hearing on 20 September 2024, Sydney (received 4 October 2024)
- 7 ICA - Answers to questions taken on notice at a public hearing on 9 October 2024, Canberra (received 6 November 2024)
- 8 QBE - Answers to questions taken on notice at a public hearing on 1 October 2024, Canberra (received 22 October 2024)
- 9 RACQ - Answers to questions taken on notice at a public hearing on 9 August 2024, Brisbane (received 23 August 2024)
- 10 Steadfast - Answers to questions taken on notice at a public hearing on 1 October 2024, Canberra (received 25 October 2024)
- 11 ASIC - Answers to questions taken on notice at a public hearing on 20 September 2024, Sydney (received 4 October 2024)
- 12 Suncorp Group -Answers to questions taken on notice at a public hearing on 9 August 2024, Brisbane (received 23 August 2024)
- 13 Allianz - Answer to question taken on notice at a public hearing on 20 September 2024, Sydney (received 8 October 2024)

Media Releases

- 1 Call for submissions, media release - 30 May 2024.
- 2 Public hearings in Ballina and Brisbane 8-9 August 2024
- 3 Public Hearings - Sydney, Melbourne and Canberra

Tabled Documents

- 1 CHOICE, Weathering the storm: Insurance in a changing climate (received 30 September 2024)
- 2 Maribyrnong Community Recovery Association, Overview and MCRA Position Paper No 1 – Emergency Management – August 2024; Maribyrnong Mitigation (received 30 September 2024)
- 3 The Australia Institute, Premium price. The impact of climate change on insurance costs. Discussion paper. July 2024 (received 30 September 2024)

Appendix 2

Public hearings and witnesses

Thursday 8 August 2024

Ballina RSL Club

1 Grant St Ballina

Ballina Shire Council

- Ms Sharon Cadwallader, Mayor
- Mr Paul Hickey, General Manager

Lismore City Council

- Mr John Gibson, General Manager
- Mr Steve Krieg, Mayor

Community Disaster Action Group

- Mr Dale Emerson, Public Officer
- Chels Hood Withey, President

Community panel

- Ms Noelle Maxwell, Private capacity
- Ms Jan Praetz, Private capacity
- Mr Nicholas Walford, Private capacity

Tweed Residential Park Homeowners Association

- Ms Regina Bankia, Committee Member
- Ms Sandra Gilbert, Advocate

Rotary Club of Ballina-on-Richmond

- Mr Colin Lee, Flood Recovery Coordinator

Community Panel

- Ms Kristy Morrow, Case Manager
- Ms Natalie Van Derklei, Recovery Support Worker
- Ms Kerry Pritchard, Representative

Friday 9 August 2024

Novotel Brisbane Airport Hotel

6-8 The Circuit

Brisbane

Local Government Association of Queensland

- Ms Crystal Baker, Strategic Policy
- Ms Lucy Greene, Lead, Intergovernmental Relations

- Ms Alison Smith, Chief Executive Officer

Murweh Shire Council

- Councillor Shaun Radnedge, Mayor

Douglas Shire Council

- Mr Paul Hoye, Chief Executive Officer

Suncorp

- Mr Tim Bucket, Executive General Manager
- Dr Rhys Whitley, Scientific Specialist

RACQ Group

- Mr Joshua Cooney, General Manager, Advocacy
- Mr Trent Sayers, Chief Executive Officer

Legal Aid Queensland

- Mr Paul Holmes, Director, Disaster relief

Tenants Queensland

- Ms Abigail Pfidze, Solicitor

Resilient Kurilpa

- Mr Sebastian Vanderzeil, Member

Community Plus Queensland

- Mrs Melinda McInturff, Community Resilience Coordinator

NQ Strata Action Group

- Mr Ian Robert Vary, Contact Person

Centre for Disaster Studies

Friday 20 September 2024

Fraser Suites Sydney

488 Kent Street

Sydney

Australian Securities and Investments Commission (ASIC)

- Ms Jane Eccleston, Acting Executive Director, Regulation and Supervision
- Mr Nathan Bourne, Senior Executive Leader, Credit, Banking and General Insurance

Australian Prudential Regulation Authority (APRA)

- Dr Sean Carmody, Executive Director, Policy and Advice
- Mr Jonathan Wood, Head of Insurance Risk

Australian Competition & Consumer Commission (ACCC)

- Mr Michael Eady, General Manager, Insurance Monitoring and Financial Services
- Ms Morag Bond, Executive General Manager, Merger, Exemptions and Digital Division (acting)
- Ms Nicole Ross, Executive General Manager, Infrastructure Division

Australian Reinsurance Pool Corporation (ARPC)

- Dr Christopher Wallace, Chief Executive Officer
- Mr Pulkit Jain, Head of Actuarial

Actuaries Institute

- Ms Elayne Grace, Chief Executive Officer
- Ms Vanessa Beenders, Executive General Manager, Public Policy and Professionalism

Australian Consumers Insurance Lobby

- Mr Tyrone Shandiman, Chairperson

Mr John Trowbridge, Private capacity

Insurance Australia Group (IAG)

- Ms Christa Marjoribanks, Executive General Manager, Product, Pricing and Governance, Intermediated Insurance Australia
- Mr Andrew Dyer, Manager Land Planning Hazards and Regulatory
- Mr George Karagiannakis, Executive Manager Government and Industry Affairs

Allianz Australia Insurance

- Mr Nicholas Scofield, Chief Corporate Affairs Officer
- Mr James Fitzpatrick, Chief Data Officer

The Climate Risk Group

- Dr Karl Mallon, Chief Executive Officer

CelsiusPro

- Mr Jonathan Barratt, Chief Executive Officer
- Mr Timothy Barratt, Marketing and Business Development

Monday 30 September 2024

Edinburgh Room

Stamford Plaza Melbourne

111 Little Collins Street

Melbourne

Maribyrnong Community Recovery Association

- Ms Madeleine Serle

Productivity Commission

- Mr Barry Sterland, Commissioner
- Mr Steward Turner, Research Manager

University of Queensland

- Professor Paula Jarzabkowski (via teleconference)

University of Melbourne

- Dr Antonia Settle (via teleconference)

The Australia Institute

- Mr Rod Campbell, Research Director
- Mr Adam Gottschalk, Anne Kantor Fellow (via teleconference)

350 Australia

- Ms Lucy Manne, Chief Executive Officer

Tuesday 1 October 2024

Committee Room 2S1

Australian Parliament House
Canberra

National Emergency Management Agency NEMA

- Mr Andrew Minack, First Assistant Coordinator-General Policy & Governance
- Ms Hannah Wandel, First Assistant Coordinator-General FACG Programs

CSIRO

- Dr Dan Metcalfe, Director Environment Research Unit

Bureau of Meteorology

- Ms Vicki Woodburn, Group Executive, Australian Climate Service

Geoscience Australia

- Dr John Dawson, Branch Head, Community Safety Branch, Place and Communities Division
- Mr Mark Edwards, Director, Vulnerability resilience & Mitigation, Community Safety Branch, Place and Communities Division

Insurance Council of Australia

- Ms Kylie MacFarlane, Chief Operating Officer
- Ms Alexandra Hordern, General Manager, Regulatory and Consumer Policy

CHOICE

- Ms Rosie Thomas, Director, Campaigns and Communications (via videoconference)

Financial Rights Legal Centre

- Ms Julia Davis, Senior Policy & Communications Officer

Financial Counselling Australia

- Ms Vicki Staff, National Coordinator for Disaster Recovery

Australian National University Institute For Climate, Energy and Disaster Solutions

- Associate Professor Roslyn Prinsley, Head of Disaster Solutions, Institute for Climate, Energy & Disaster Solutions
- Associate Professor Caroline E. Schuster

James Cook University - Centre for Disaster Studies

- Adjunct Professor David King (via videoconference)

Good Shepherd

- Dr Jozica Kutin, General Manager Policy, Advocacy and Service Impact

Bushfire Survivors for Climate Action

- Ms Serena Joyner, Chief Executive Officer

QBE Australia

- Mr Andrew Ziolkowski, Chief Underwriting and Transformation Officer (via videoconference)
- Mr Chris Esson, Chief Financial Officer (via videoconference)

Wednesday 9 October 2024

Committee Room 2S1

Australian Parliament House

Canberra

Steadfast Group

- Mr Robert Kelly AM, Managing Director and Chief Executive Officer
- Mr Christopher Sargent, General Council