

September 25, 2014

ICA welcomes Productivity Commission's interim report into natural disaster funding

The Insurance Council of Australia (ICA) welcomes the Productivity Commission's draft report into Natural Disaster Funding Arrangements, released today.

ICA CEO Rob Whelan said the report provided clear signposts to state and federal governments on ways to improve Australia's resilience to catastrophes.

He said the draft report appropriately concluded current natural disaster funding arrangements were subject to legacy issues and could be significantly improved in the interest of resetting the balance between preventing the worst impacts of a disaster and paying increasing bills for recovery and rebuilding.

Mr Whelan said: "Australian governments have traditionally been too focused on handing out billions of dollars in an ad hoc manner following a disaster rather than looking at the long-term benefits of investing in permanent mitigation infrastructure to protect vulnerable communities.

"The ICA supports the draft report's conclusions that federal financial support for mitigation should be increased and post-disaster support reduced, and that state and territory governments need a sharper incentive to manage, mitigate and insure natural disaster risks.

"The ICA agrees land use planning does not always incorporate natural disaster risk, and more attention should be paid to regulations and codes that govern the built environment."

Mr Whelan said the ICA was pleased the report recognised the important role of insurance in risk mitigation, especially for private assets, and its conclusion insurance markets were working well for natural disaster risk, with pricing increasingly reflecting individual risk.

Risk-based pricing delivers insurance premiums that reflect the level of risk an individual faces. The draft report identifies the importance of this price signal in motivating all stakeholders to address risks through better planning and mitigation.

However, more can be done to ensure risk-based pricing references the best-available data, and the report calls for improvements in the consistency, sharing and communication of information on hazards and risk exposure.

"The ICA and its members continue to focus on working with governments at all levels to ensure that the best-available risk data that is developed by governments can be accessed by insurers and their clients," Mr Whelan said.

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“The ICA supports the draft report’s statement that households and businesses should be relied upon to manage natural disaster risks to their assets, and its emphasis on the importance of government policies that allow Australians to understand natural disaster risks and manage them appropriately,” Mr Whelan said.

The ICA also welcomes confirmation that taxes on private insurance, which is paid by individuals who choose to manage their risks, is a disincentive to adopting appropriate levels of insurance.

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