

March 15, 2013

ICA welcomes Productivity Commission report

The Insurance Council of Australia (ICA) today welcomed the Productivity Commission's Barriers to Effective Climate Change Adaptation report.

ICA CEO Rob Whelan said the PC report provided clear guidance for governments of all levels to implement measures that would help protect at-risk communities from the impact of extreme weather. He said [three key recommendations](#) were particularly welcomed by the insurance industry:

- **State and territory taxes and levies on general insurance constitute a barrier to effective adaptation to climate change. State and territory governments should phase out these taxes and replace them with less distortionary taxes (recommendation 16.1)**

Stamp duties and levies on insurance are unfair and inequitable. The ICA agrees with the PC that other state-level taxes, such as property-based charges or land taxes, can be a more efficient revenue base for state governments, and would not discourage the uptake of insurance. The ICA notes similar recommendations have been made many times in recent years, most notably by the Henry Tax Review (2010).

- **The Australian Government should only proceed with reforms that require all household insurers to offer flood cover if it can be demonstrated that the benefits to the wider community would exceed the costs (16.2)**

The ICA states that requiring all household insurers to offer flood cover would be detrimental to communities. It would remove consumer choice, and potentially increase costs and narrow competition in the market. At present more than 80 per cent of household policies have flood cover, demonstrating consumers are making informed decisions about the products they wish to buy.

The ICA notes the PC report's comment that: *"A more appropriate policy response to concerns about the extent of flood cover would be to address barriers to effective adaptation in other policy areas that bear on the cost, uptake and provision of insurance."*

Mr Whelan welcomed the [Federal Government's response](#) to this recommendation, which said it would not require all insurers to offer flood cover.

- **Governments should not subsidise household or business property insurance, whether directly or by underwriting risks (16.3)**

The ICA believes government subsidies would distort the insurance market, might not assist those most at need, and may serve to encourage rather than discourage development in at-risk communities.

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The ICA notes the PC report's comments that: *"The costs to the community as a whole of subsidising insurance are likely to exceed any benefits. In essence, subsidies would not reduce the physical risks that individual properties face, but would mean that governments bear some of the losses to these properties."*

Mr Whelan welcomed the Federal Government's agreement with this recommendation.

He said: "The general insurance industry is encouraged by the Productivity Commission report, which recognises the importance of the price signal that insurance sends about the need to adapt and reduce risk to ordinary households and businesses.

"However, these signals are only useful if they are observed, understood and responded to with action. Further efforts must be undertaken by governments at all levels to identify the worst of the exposures that the community is forced to live with, and then take action to remove or reduce hazards to acceptable levels.

"The Federal Government's recent announcement of \$100 million in mitigation funding is a good start, and the ICA is also encouraged by mitigation announcements by some state and local governments. The insurance industry is ready to engage in dialogue with any government that makes the prudent decisions to mitigate and reduce the impacts of hazards."

Mr Whelan said the ICA also welcomed Recommendation 7.1 regarding the pressing need to develop and transparently share hazard mapping, which would help property owners and governments understand the hazards they faced in their area and make appropriate decisions. It would also enable insurers to more accurately price insurance premiums to individual risk levels.