

Wednesday October 14, 2020

Insurers support APRA's call on disaster mitigation funding to address affordability issues

The Insurance Council of Australia (ICA) has welcomed a call by the Australian Prudential Regulation Authority (APRA) today for significant funding for investments in natural disaster mitigation.

In a speech delivered to the Australian Business Roundtable for Disaster Resilience and Safer Communities this afternoon, Australian Prudential Regulation Authority (APRA) executive board member Geoff Summerhayes said the “high, rising and volatile costs” of natural disasters was leading to declining insurance affordability and accessibility.

He said tackling the root cause “through greater investment in mitigation to protect homes, businesses and infrastructure from damage” was the most effective way of meaningfully and sustainably addressing the issue.

ICA CEO Andrew Hall said the industry supported APRA's view that substantial investments in mitigation were required to protect high-risk communities from the impact of extreme weather events such as cyclones, floods and bushfires, and thereby reduce pressures on insurance premiums.

He said Treasurer Josh Frydenberg had flagged in his Budget speech that the Federal Government would make mitigation funding announcements in response to the Royal Commission into National Natural Disaster Arrangements. The response is due within several weeks.

“The clear and urgent message to all levels of government from APRA, and from many other organisations including the Productivity Commission and from numerous inquiries, is that investments in mitigation that reduce the physical risk to properties is the only sustainable way to reduce insurance premiums,” Mr Hall said.

“Without mitigation, the damage bill in vulnerable communities – northern Australia in particular – will continue to soar. At present only 3 per cent of natural disaster budgets are spent on prevention.

“The cost of inaction will ultimately cost governments and communities much more than sensible, timely and effective investments in prioritised mitigation programs.

“The ICA has been working closely with federal Treasury to identify areas of high exposure where mitigation projects should be considered as a priority. Many schemes are at an advanced stage and only require approvals and funding to go ahead.”

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CASE STUDY 1: Townsville

Townsville is one of the most flood-exposed cities in Australia and is also highly vulnerable to cyclones. ICA data shows that the average premium for a building that is compliant with cyclone building codes and has no significant flood exposure is \$1933. For buildings that are believed to be cyclone non-compliant with an acute flood exposure, average premiums rise to \$2710.

ICA modelling suggests that reducing flood risk through permanent mitigation could reduce insurance premiums by up to 21 per cent. Further significant premium reductions of 9-12 per cent would be possible through improving building resilience to storms and cyclones, and improvements in flood data to show first-floor heights. Premiums would also fall by 9 per cent if the Queensland Government removed stamp duties on insurance.

Case Study 2: Cairns

In Cairns, the average premium for a building that is compliant with cyclone building codes and has no significant flood exposure is \$1801. For buildings that are believed to be cyclone non-compliant with an acute flood risk, average premiums are \$2841.

ICA modelling suggests that reducing flood risk through permanent mitigation could reduce insurance premiums by up to 20 per cent. Further significant premium reductions of 9-16 per cent would be possible through improving building resilience to storms and cyclones, and improvements in flood data to show first-floor heights. Premiums would also fall by 9 per cent if the Queensland Government removed stamp duties on insurance.

EDITORS NOTE:

Funding for public mitigation (from the *ICA Submission to the Northern Australia Insurance Inquiry: Second Update Report*, September 2019):

The ICA has long advocated for a substantial increase in Federal Government investment in mitigation to reduce disaster risk in Northern Australia. Between 2009-10 and 2012-13, over \$8.3 billion was spent on disaster response and recovery in Australia. Yet, our investment in preventing these disasters from occurring in the first place remains low and inefficiently managed. Over the same 2009-10 to 2012-13 period, only \$170 million was spent on disaster mitigation.

This disparity in spending continues today, despite many inquiries and organisations calling for increased mitigation funding. Notably, the Productivity Commission recommended in its 2014 Natural Disaster Funding Arrangements Inquiry that the Federal Government allocate \$200 million annually to disaster mitigation, with a further \$200 million provided by the States and Territories. This investment outlay would be offset by the reduced cost of disaster response and recovery.

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In 2013, the Australian Business Roundtable for Disaster Resilience and Safer Communities White Paper demonstrated that carefully targeted resilience investments of \$250 million per annum have the potential to generate budget savings of \$12.2 billion for all levels of government and would reduce natural disaster costs by more than 50% by 2050. In a more recent report, the Australian Business Roundtable estimated the total economic cost of disasters in 2015 exceeded \$9 billion, would double by 2030 and would average \$39 billion a year by 2050 without substantial investment in mitigation.

Additionally, the 2016 Northern Australia Insurance Premiums Taskforce found the only means to reduce high insurance premiums in Northern Australia was to invest in mitigation to reduce the region's high exposure to natural hazards. Similarly, the Australian Institute of Actuaries estimates the annual cost of disasters as between \$11-12 billion, only 40% of which is insured. In its pre-budget submission in February 2019, the institute repeated its calls for government to adopt the productivity commission's recommendations to increase investment in mitigation.

Without a commitment from Federal and State Governments to adequately invest in mitigation, many communities in Northern Australia will remain highly exposed to disaster and insurance premiums will remain commensurate to the high risk.

ABOUT THE INSURANCE COUNCIL OF AUSTRALIA:

The Insurance Council of Australia (ICA) is the representative body of the general insurance industry in Australia. ICA members represent about 95 per cent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

June 2020 Australian Prudential Regulation Authority statistics show that the general insurance industry generates gross written premium of \$51.4 billion a year and has total assets of \$135.4 billion. The industry employs about 60,000 people and on average pays out about \$171.1 million in claims each working day.

Over the 12 months to the end of June 2020 the industry's net profit after tax (NPAT) was \$1.0 billion – a 70.5 per cent decrease from the prior year's NPAT of \$3.5 billion. The industry's underwriting result was \$1.4 billion, falling by 39 per cent from \$2.3 billion in the prior year. <http://www.insurancecouncil.com.au/about-us>