

June 2023

Climate Change Authority | Issues Paper - Setting, tracking and achieving Australia's emissions reduction targets

To whom it may concern,

Climate Change Authority | Issues Paper - Setting, tracking and achieving Australia's emissions reduction targets

The Insurance Council of Australia (**Insurance Council**) thanks the Climate Change Authority for the opportunity to provide feedback on the Issues Paper - Setting, tracking and achieving Australia's emissions reduction targets. We appreciate the collaborative approach the Authority has taken to welcome submissions from interested stakeholders.

The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy, the general insurance industry employs approximately 60,000 people, generates gross written premium of \$64.5 billion per annum and on average pays out \$147 million in claims each working day (\$36.5 billion paid out per year).¹

The Australian Federal Government should set a science-based emissions reduction target for 2035, that is Paris aligned and consistent with IPCC timeframes. The Paris agreement calls for holding the increase in temperature to well below 2C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5C.

Further detail is provided below.

Question 1a: What actions and enablers beyond those identified in the Strategic Framework could help Australia progress towards a prosperous and resilient net zero future?

The Insurance Council welcomes the comprehensive set of actions and enablers identified in the Strategic Framework. Along with government, the insurance industry can play a critical role in delivering these actions and enablers, particularly in the areas of managing climate risk and investment (see Question 1b and Question 2a).

As outlined in Question 6, sustainable taxonomies and disclosure of climate-related risks will play an important role in helping the insurance industry (and the corporate sector more broadly) to manage climate risk and facilitate net-zero investment.

In addition, industry collaborations to share best practices and collaborate on climate solutions will support progress towards a net zero future. As mentioned in Question 5, the ACCC needs to provide guidance to businesses and industry associations to assist insurers to better understand how competition law applies to such arrangements and specifically how to build and share best practice on emissions reduction across industry in order to achieve climate and sustainability goals.

¹ APRA Statistics February 2023

Question 1b: What are your highest priorities?

Of the six actions identified in the Strategic Framework, managing climate risk is a high priority for the insurance industry. Australia is experiencing more severe and frequent extreme weather events that are projected to increasingly exceed historical norms and occur concurrently, with the mounting direct costs of extreme weather projected to reach \$35.24 billion per year by 2050.²

The insurance industry is uniquely placed to understand the rising costs of extreme weather and its impacts. Since the Black Summer of 2019/20 the Insurance Council has declared 12 catastrophes, and this has resulted in insurers recording over \$12 billion in claims costs over the last two years alone.

These worsening climate impacts are also already affecting the affordability and availability of insurance in Australia. For example, in Northern Australia, the increasing scale and frequency of claims due to cyclones and flood has raised insurance costs. Climate impacts are, and will continue to have, direct impacts on the insurance market if climate risk is not managed appropriately.

Investment is also a high priority for the insurance sector. Insurers are among the largest asset managers in the world and their approach to investing is critical in supporting the transition to a net zero economy. To enable a transition to net zero emissions, Australia is expected to need \$2.5 to \$3 trillion of investment in the next three decades.³ Insurers are increasingly supporting this transition by investing in rapidly growing transition sectors, whilst minimising the risk of exposure to stranded assets and future-proofing their portfolios.

Question 2a: How are you and the people around you impacted by or preparing for the net zero transition and Australia's climate future?

Insurers are increasingly conducting comprehensive climate risk assessments to understand the potential impacts of climate change across their operations, underwriting and investment portfolios. Many insurers are voluntarily disclosing their climate-related risks, while they wait for more specific guidance from the Australian Government on mandatory disclosures of climate-related risks.

Many insurers are setting emissions reduction targets and actively making efforts to reduce emissions across their operations, supply chains and investment portfolios. With the Australian general insurance industry employing ~60,000 people, decarbonising the general insurance industry's day-to-day operations can significantly reduce emissions across the Australian economy.⁴ Likewise, general insurers managed \$36.5 billion in claims in 2022, equivalent to an average of \$147m every working day, so reducing emissions across their supply chains can significantly contribute to decarbonisation well beyond their own operational footprint and across all Australian communities.

Insurers are incorporating climate considerations into their underwriting and pricing practices. For example, insurers are underwriting innovative products and solutions to address climate-related risks. In markets with well-defined net zero pathways, it is estimated that up to 70 per cent of all underwriting will support transition-related assets and technologies by 2050.⁵ This includes offering specialised insurance products for renewable energy projects, green buildings, and climate-resilient infrastructure.

² McKell Institute for the Insurance Council of Australia (2022) Insurance Catastrophe Resilience Report 2021–22

³ Based on global estimate in GFMA, BCG (2020), Climate Finance Markets and the Real Economy, GFMA. Scaling emissions estimates for each sector to Australian emissions intensity. In line with other publicly available estimates on Australia's transition costs, which range from \$1.1T AUD by the IGCC to \$5T AUD from Griffith, AFR.

⁴ Insurance Council of Australia, Climate Change Roadmap, 2022

⁵ Insurance Council of Australia, Climate Change Roadmap, 2022

Insurers are also exploring parametric insurance products that provide rapid payouts based on predefined climate triggers, enabling faster recovery in the event of climate-related disasters.

Insurers are tailoring their approach to investing to support the transition to a net zero economy. To enable this transition, Australia is expected to need \$2.5 to \$3 trillion of investment in the next three decades.⁶ Insurers are increasingly investing in rapidly growing transition sectors and aligning their investment portfolios with climate goals and net-zero commitments. They are also increasingly divesting from high-carbon assets and increasing investments in climate-friendly sectors, such as renewable energy, green infrastructure, and sustainable businesses, to minimise the risk of exposure to stranded assets and future-proofing their portfolios.

The insurance industry is uniquely placed to understand how climate change is impacting on livelihoods across the country, with the McKell Institute forecasting that extreme weather events are expected to cost Australia \$35.2 billion a year by 2050, creating challenges for both the affordability and availability of insurance.⁷ Without ongoing increased funding to make Australian homes, business and communities more resilient to extreme weather, coupled with a change in approach to what we build and where we build it, the risk profile of communities exposed to extreme weather risk will not improve, nor will the rising costs of insurance. In this context, tackling emissions is essential to maintain an insurable Australia, as resilience measures will reach hard limits if emissions continue to climb.⁸ Insurers are actively tackling this challenge in partnership with the Australian government via the Hazard Insurance Partnership (HIP) and supporting on-the-ground tools and partnerships to strengthen household resilience.

Question 2b: How can governments better support you to prepare for or respond to the impacts?

Governments can better support the insurance industry to prepare for or respond to the impacts of climate change by providing strong leadership on climate change, demonstrated through the setting of strong national emissions reduction targets that are underpinned by policies to support communities, businesses and industry to mitigate and adapt to the risk of climate change. Providing clear and consistent policy signals on climate change and the transition to a low-carbon economy creates a stable and predictable investment environment which enables businesses and investors to make long-term plans and allocate capital towards green and climate-friendly initiatives.

The Australian government should set a science-based emissions reduction target for 2035, that is Paris aligned and consistent with IPCC timeframes. The Paris agreement calls for holding the increase in temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C. This target needs to be supported by a comprehensive set of policies that accelerate Australia's transition to net-zero, and the Insurance Council and its members look forward to continuing to collaborate on the Australian Government's energy and climate policies, including the roll out of the Powering Australia Plan, the National Energy Performance Strategy and the Sustainable Finance Strategy.

The Insurance Council welcomes the establishment by the Australian Government of the Disaster Ready Fund (DRF) from 1 July 2023, with up to \$200 million to be invested annually in disaster mitigation for five years from 2023-24. However, given the long-term challenges posed by worsening extreme weather in Australia, investment in disaster resilience will clearly be required well beyond the 2028-29 end-date for budgeted DRF spending. To enable communities and governments to plan and develop a pipeline of these investments, Commonwealth disaster mitigation funding should move to a

⁶ Financial Review (2022), Climate transition requires \$3 trillion: CBA, [CBA share price: \\$3 trillion for climate transition is akin to mining boom spend \(afr.com\)](#)

⁷ Insurance Council of Australia, Climate Change Roadmap, 2022

⁸ IPCC https://www.ipcc.ch/report/ar6/wg2/downloads/report/IPCC_AR6_WGII_SummaryForPolicymakers.pdf

rolling ten-year program, as occurs with funding for land transport infrastructure and defence spending. In addition, disaster resilience funding must be matched by the states and territories, needs to be indexed from 2023-24 so it does not fall in real terms, and should include a commitment to investing the full amount of budgeted funding each year into disaster mitigation projects and, if this does not occur, to rolling uncommitted funding into later years.

The Insurance Council welcomes the development of a national standard that considers disaster and climate risk as part of land use planning and building reform processes. Alongside the development of a new national standard, state and local governments should also focus on avoidance, mitigation, and the impacts of a disaster at the time of planning approval, to limit new development in areas prone to risk from current and future extreme weather events, including flooding, bushfires, cyclones and coastal hazards.

The Australian Government should establish a consistent and accessible national database for climate projections and modelling for the key extreme weather perils for use by agencies involved in determining the spatial planning arrangements for future settlements, and other regulators and standards writing bodies with responsibilities for improving the resilience of the built environment.

These government actions will complement parallel initiatives, such as integrating resilience into the National Construction Code (NCC). Increasing severity and / or frequency of extreme weather events will require more resilient buildings to better protect Australians. To enable this, the principle of resilience for buildings must be embedded in the National Construction Code (NCC). The Australian, State and Territory Governments should, via the Building Ministers' Meeting and ABCB, support amendments in the next round of review to the NCC and relevant Australian Standards to prioritise building resilience and consider current and future climate projections.

Question 3: What should the Authority measure or assess to determine progress towards a just transition and improved wellbeing?

Resilient homes can serve as an important measure and assessment tool to determine progress towards a just transition. Assessing the prevalence and effectiveness of resilient homes within a community can indicate progress in building community resilience to climate change, including factors such as community-wide disaster preparedness and the ability of residents to recover quickly from climate-related events.

In addition, the impacts of climate change are disproportionately impacting vulnerable communities, which is exacerbating insurance affordability issues, and can leave residents without proper insurance coverage or struggling to recover after a disaster.⁹ Assessing the availability of resilient homes in vulnerable communities can help identify gaps and prioritise government support to achieve a more equitable transition.

Using resilient homes as a measure and assessment tool to evaluate progress towards a just transition would help ensure that the transition is not only focused on reducing emissions but also considers social equity, community resilience, and the well-being of individuals and communities impacted by climate change.

Question 4: What more could the Government do to help you reduce your carbon footprint?

See Question 2b and Question 6.

⁹ Actuaries Institute, Home insurance affordability and socioeconomic equity in a changing climate, 2022

Question 5: What are the other challenges and opportunities the global context presents Australia with in responding to climate change?

As global markets increasingly adopt and invest in climate-friendly entities, assets and activities, there is a risk that Australia may face challenges in maintaining competitiveness in international markets and could face trade barriers and market access limitations. An Australian sustainable taxonomy is needed to provide transparency around sustainability outcomes, and to help them attract global investment and maintain competitiveness. The Insurance Council welcomed the recent government announcement to support the development and implementation of this taxonomy and will continue to engage in the consultation process.

Global corporate action on climate change provides opportunities for collaboration and partnerships. Australian companies benefit from engagement in industry collaborations and international alliances to share best practices, exchange knowledge, and collaborate on climate solutions. These partnerships can foster innovation, build networks, and enhance Australia's influence in global climate discussions. However, they are increasingly at risk due to a lack of guidance on how businesses and industry associations can collaborate and cooperate in support of climate action in line with Australia's anti-competitive and cartel conduct laws. The ACCC should promptly consider providing guidance or an appropriately designed safe harbour for businesses and relevant stakeholders to manage the application of competition law to support and facilitate the building and sharing of best practice on emissions reduction across industry in order to achieve climate and sustainability goals.

Question 6: What role is there for corporate action to 2030 and beyond?

See Question 2a.

Question 7: When is it appropriate for the Government to regulate something?

There is a role for climate regulation to provide a framework for standardising approaches to key climate issues, ensuring consistent action across entities and sectors. For example, an Australian sustainable finance taxonomy is needed to provide common definitions that can be used to credibly define, assess and compare sustainable investments, providing investors with confidence. The Insurance Council is supportive of the Australian Sustainable Finance Initiative (ASFI) developing an Australian sustainable finance taxonomy and welcomes government support, investment and involvement to see the taxonomy finalised and implemented in Australia.

In addition, while many insurers are voluntarily disclosing their climate-related risks, government regulation to transition from voluntary to mandatory disclosures of climate-related risks will help to set standardised reporting requirements which would facilitate comparability and transparency between entities and sectors and enable compliance to ensure that companies are taking meaningful steps to mitigate their climate impact.

It will be essential that any future mandatory disclosure of climate-related risks in Australia aligns and harmonises with existing and future climate and sustainability disclosure frameworks across jurisdictions and at the international level. For example, alignment with International Financial Reporting Standards (IFRS) will be critical¹⁰. If reporting frameworks in Australia align with other jurisdictions, this will streamline transparency of the potential financial impacts to an organisation's sustainability risks and opportunities, as well as accelerating the adoption of consistent, comprehensive sustainability-related disclosures.

Alignment with existing reporting standards will also improve comparability of results for consumers and investors. If Australia fails to align with international sustainability standards there is a risk that

¹⁰ Insurance Council of Australia, Mandatory Disclosure Submission to Australian Government, 2022

reinsurance and international capital inflows become harder to attain, as a result it is critical that Australia continues to align with best practice.

Question 8: How could the Authority best strike a balance between ambition, domestic considerations and the international context in its 2023 NDC advice?

It's important that the Authority sets level of ambition of Australia's emission reduction targets in line with the long-term temperature goals of the Paris Agreement, particularly limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C.

Question 9: What do you think Australia's 2035 target should be and why?

The Australian government should set a science-based emissions reduction target for 2035, that is Paris aligned and consistent with IPCC timeframes. The Paris agreement calls for holding the increase in temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C.

Question 10: What are some leading indicators of progress towards net zero emissions?

N/A

Question 11: What are some leading indicators of progress towards preparing for and adapting to climate change?

Levels of resilience investment, such as the allocation and expenditure of funds under the Disaster Ready Fund (DRF), could be used as an indicator to help assess progress made in adapting to climate change and reducing the vulnerability of communities to climate-related risks. Higher levels of long-term resilience investment would enable communities and governments to plan and develop a pipeline of projects to strengthen the resilience of communities and infrastructure against the long-term challenges posed by worsening extreme weather in Australia.

Reduced impacts and costs of extreme weather events could also be used as an indicator to help assess progress made in adapting to climate change. For example, lower impact and cost of extreme weather events could be positive indicators of better infrastructure and planning, effective land use policies and enhanced emergency response and preparedness.

As outlined in Question 3, resilient homes could be used as an indicator to track progress towards preparing for and adapting to climate change. Tracking the prevalence and effectiveness of resilient homes within a community can indicate progress in community adaptation and resilience to climate change. Furthermore, tracking the availability of resilient homes in low-income communities can also help identify gaps and prioritise efforts to achieve a more equitable transition.

Question 12a: What factors should the Authority consider when developing sectoral decarbonisation pathways?

Sector decarbonisation pathways should be underpinned by robust policies to support the technologies, best practices, and feasible mitigation measures needed for sectors to decarbonise. The socioeconomic impacts of decarbonisation on workers, communities, and vulnerable groups within the sector should be considered to ensure a just transition. Sector decarbonisation pathways should also incorporate climate resilience measures to mitigate the sector's vulnerability to climate change impacts, such as extreme weather events.

Question 12b: What are the risks and opportunities for households, business, workers and communities affected by the transition?

See Question 2a.

Question 12c: Are there supply chain pressure points?

The transition to a net-zero economy requires investment in upskilling existing technicians and training technicians of the future. For example, skill shortages in electric vehicle repair is one factor that can contribute to delays in fixing a vehicle after an accident, which can increase cost and inconvenience to the consumer. To address this skills gap, state governments should prioritise and fund micro-credentials in electric vehicle repair to assist in upskilling existing mechanics, as well as adding electric vehicle repair to state-based training programs for school leavers and subsidising this training. Governments should strive to improve technicians' access to essential information on all electric vehicles in Australia to enable them to be safely repaired. This should start with a state government commitment of at least \$1 million per state to set up a pilot program, which could be rolled out, and supported by the Federal Government's New Energy Skills Program. The Victorian Government is already progressing this, with a pilot program to upskill 500 electricians before developing a new course.

Question 13: What is the role for Government in reducing these risks and assisting households, business, workers and communities to realise the opportunities?

See Question 2b.

Question 14: What are the most important things to consider when assessing the adequacy of a country's NDC?

It's important to assess the level of ambition of Australia's emission reduction targets. Australia's targets need to align with the long-term temperature goals of the Paris Agreement, particularly limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C. Australia's NDC needs to be underpinned by robust monitoring, reporting, and verification mechanisms to ensure accurate tracking of progress and a policy and regulatory framework that supports the NDC.

Question 15: How could Australia partner with other nations to accelerate global progress towards meeting the Paris Agreement goals?

Australia should continue to actively engage in international collaborations and initiatives aimed at addressing climate change. This includes participating in forums such as the United Nations Framework Convention on Climate Change (UNFCCC) and its subsidiary bodies. Australia should continue to advocate for stronger climate action and international cooperation; and encourage other nations to increase their climate ambitions and align their policies with the goals of the Paris Agreement. However, Australia will need to demonstrate climate leadership by setting an ambitious 2035 emission reduction targets, underpinned by robust climate policies. By leading by example, Australia can motivate other nations to take more ambitious climate actions.

Question 16: What do you see as the challenges and opportunities from a phase out of fossil fuel production? What should the Government consider when determining a plan for the phase out of fossil fuels?

N/A

Question 17: Should the Authority consider international maritime and aviation emissions in its advice?

N/A

Question 18: What risks and opportunities do you (including your household, business, workers and communities) face as the world decarbonises and as Australia responds to the impacts of climate change?

See Question 2a for the risks and opportunities to the insurance industry.

Question 19: What could governments do to help?

See Question 2b.

Question 20: What types of targets do you see as important and/or problematic, and why?

Interim targets on the way to net-zero by 2050 (2030, 2035, 2040, 2045) are important to provide a stable policy framework for businesses and investors to plan their net-zero activities accordingly. These interim targets allow for better anticipation of future market conditions, technology trends, and regulatory requirements. This helps businesses and investors align their strategies and investments with the anticipated market trends, thereby reducing uncertainty and increasing investor confidence to make long-term investment decisions.

Question 21: What do you see as the strengths and weaknesses of the NGER scheme? How could it be improved?

N/A

Question 22: What aspects of methane measurement, reporting and verification should the Authority focus on as part of the NGER review?

N/A

Question 23: Following the Government's acceptance of recommendations of the Chubb Review, what do you see as the strengths and weaknesses of the CFI and ERF?

N/A

Question 24: How could the CFI, ERF and NGERs be improved in the context of the Paris Agreement era?

N/A

Question 25: Following adoption of the Chubb Review recommendations, what concerns about ACCU integrity remain?

N/A

Question 26: What are the risks to integrity that should be buffered against?

N/A

Question 27: How should a buffer be applied (e.g. government purchase, supply-side reserve, demand-side correction, other)?

N/A

Question 28: What role should governments and users of offsets have in ensuring demand-side integrity?

Demand-side integrity is critical to ensuring that carbon credits are used in a way that supports genuine emissions reductions in line with achieving net zero emissions by 2050.

Governments should ensure that robust standards for offset projects clearly define eligibility, methodology and performance; and encourage market transparency to allow users of offsets to make informed decisions and assess the credibility and environmental integrity of the offsets they purchase.

Governments can also play a role in ensuring high-quality accreditation schemes for offset providers and project developers to ensure that only credible entities can participate in offset markets. Regulatory bodies should also have robust oversight mechanisms in place to monitor offset projects,

verify reported emissions reductions, and take appropriate actions against non-compliance or fraudulent activities.

Users of offsets should conduct thorough due diligence and risk management to assess project risks, reputational risks, and the reliability of offset providers, to be confident that offsets are procured from credible sources and align with the user's sustainability objectives.

Question 29: What protections are needed to ensure the integrity of carbon trading markets and exchange platforms?

A well-defined and robust regulatory framework is needed to ensure the integrity of carbon trading markets and exchange platforms. This framework should include comprehensive rules and guidelines for market participants and establish clear procedures for transparent registration, verification, and certification of emission reduction projects and credits.

Standardized accounting methods and reporting requirements are also essential to ensure consistency and comparability of emissions data. These standards should be established and enforced to prevent inconsistencies, double counting, and fraudulent activities. Accurate and transparent reporting enhances market confidence and enables effective monitoring and verification of emission reductions.

Independent third-party verification and accreditation of emission reduction projects, carbon credits, and market participants are critical. Accredited verifiers should assess the eligibility and authenticity of projects and ensure they comply with relevant standards and methodologies. Independent auditing and verification strengthen the market's integrity and provide assurance to buyers and investors.

Effective monitoring systems are necessary to track emission reductions and ensure compliance with regulatory requirements. Regular monitoring of projects and the verification of reported emissions help prevent misreporting or fraudulent activities. Furthermore, strong enforcement mechanisms should be in place to penalise non-compliance and deter fraudulent behaviour.

International harmonisation of standards, methodologies, and oversight mechanisms is crucial for the integrity of global carbon markets. Close cooperation between countries can help align regulatory approaches, share best practices, and establish a level playing field across markets, reducing the potential for regulatory arbitrage and ensuring consistent implementation of integrity measures.

Question 30: What role should international carbon markets have in Australia?

N/A

Question 31: What else should the Authority be considering in its advice to Government?

N/A

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Ange Nichols, Adviser, Climate Action & Resilience, ange.nichols@insurancecouncil.com.au.

Yours sincerely,



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