Insurance Council of Australia

Building Australia's Resilience

Policy recommendations for federal and state governments

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Acknowledgement of Country

The Insurance Council of Australia acknowledges the Traditional Owners of Country throughout Australia and their continuing connection to land, culture, sea and community. We recognise the tens of thousands of years of continuous custodianship and placemaking by First Nations peoples and their proud role in our shared future. This report was produced on the lands of the Gadigal people of the Eora Nation. We pay our respects to Elders past, present and emerging.

Foreword

For decades, many experts have warned that too many Australians are living in harm's way: on floodplains, in bushland where the threat of fires looms, in coastal communities or in the direct line of cyclones.

Some of our riskiest locations are also our most beautiful, and every year more and more people move to these areas as new housing opens up – despite billions being poured every year into disaster recovery.

Following a disaster, it's natural for communities to want to rebuild what was there before, but too often this leaves them vulnerable to the next flood, storm or blaze that threatens their homes or businesses.

In the aftermath of such extreme events, collectively we should be asking ourselves whether it's safe to rebuild and if it is, how do we build to withstand future events?

The key here is building back better and stronger, and away from harm.

The catastrophic flooding that struck South-East Queensland and Northern NSW in early 2022 caused nearly $6 billion in insured damages. It was the biggest insurance event in Australia's history, and, according to MunichRe, the second costliest insurance event in the world that year.

There are many lessons to be learned from this event alone, but the key one is that we cannot continue with business as usual and must change what we build and where we build it.

If we don't act, as climate change drives an increase in the frequency and severity of extreme weather events around the world, we can expect to see growing challenges for homeowners living in high-risk areas obtaining adequate insurance cover.

The responsibility to make these changes falls to governments, both state and federally. And while there have already been welcome announcements to do just that – from the Federal Government's $1 billion Disaster Ready Fund, to state-funded resilience programs being rolled out across high-risk regions in Queensland and New South Wales – more needs to be done.

That is why the Insurance Council and its members have developed this set of policy recommendations, which chart a path for how we can build on these existing initiatives to create a more resilient Australia, lessening the impact when disaster strikes and ensuring we don't continue to put communities in harm's way.

Taken together, this suite of policy proposals will support all Australians, wherever they live, to be better prepared before disaster strikes and to recover more quickly from unexpected events. We strongly recommend the adoption of these recommendations by state, territory and federal governments.

Andrew Hall
Chief Executive Officer
Insurance Council of Australia

Resilience Investment

The ICA welcomes the establishment by the Federal 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.

Australia's experience with disasters over recent years, including the 2019–20 Black Summer bushfires and flooding across eastern Australia last year, shows why investing in disaster mitigation is vital to protect lives and property from worsening extreme weather driven by a changing climate. Insured costs alone from disasters last year reached a record $7.168 billion[1], with the February–March floods the costliest insurance event in Australian history and the second costliest in the world in 2022.

Research commissioned by the Insurance Council from leading actuarial consultancy Finity showed that a five-year program of resilience measures costing approximately $2 billion would be expected to reduce costs to governments and households by more than $19 billion by 2050[2], delivering a return on investment of almost 10 times nationally. A program of this size could be delivered by budgeted funding from the DRF when matched funding from the states is included.

Further research by McKell, also commissioned by the Insurance Council, found that, by 2050, the average Australian household could be paying $2,509.16[3] a year because of the direct cost of extreme weather events. Investing in disaster resilience creates clear savings for Australians now and into the future.

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, the Insurance Council believes that Commonwealth disaster mitigation funding must move to a rolling ten-year program, as occurs with funding for land transport infrastructure and defence spending.

Disaster resilience funding must be matched by the states and territories. The ICA commends the Federal Government for requiring a matched contribution from the states for all projects approved under the DRF. The Commonwealth may wish to incentivise high-quality investments by providing greater than 50 per cent funding for high-ROI projects in identified high risk areas.

1. Data as of 6 July 2023.
2. 'Reaping the Rewards of Resilience', Finity Consulting. Published February 2022.
3. 'The Cost of Extreme Weather', The McKell Institute. Published September 2022.

The Insurance Council's advocacy

▶ The Federal Government must:

- **Build on the five-year disaster resilience funding announced in the October 2022–23 Budget**, to move disaster resilience funding to a ten-year rolling program, as already occurs for land transport and defence funding.
- **Index disaster mitigation funding from 2023–24** so it does not fall in real terms, as occurs under current arrangements.
- **Invest 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.
- **Identify risk mitigation projects, in partnership with the insurance industry**, that deliver a significant return on investment and help put downward pressure on premiums, working with insurers through the Hazards Insurance Partnership. This is complemented by the development of a national public baseline of current and future hazard risk.

▶ State and Territory Governments must:

- **Match Federal Government resilience funding**, as Queensland has done via the $741 million Queensland Resilient Homes Fund and NSW via the $700 million Resilient Homes Program.
- **Draw on robust, streamlined national hazard data developed by the Federal Government**, via the Hazard Insurance Partnership, to help inform and prioritise suitable resilience projects and their location in each state.

Land-use Planning

The disasters experienced in Australia in recent years have highlighted the need for policy settings that more consciously consider the relationship between land-use planning and extreme weather risk. Greater precision, transparency and consistency is needed to ensure extreme weather risk is assessed and addressed in planning for communities across Australia.

Too many homes are in the direct line of flood, fire, cyclone and coastal hazards, as a legacy of past planning decisions where either the knowledge did not exist, conditions have changed or not enough account was given to the extreme weather risk. Many of these properties are now cheaper to buy or rent because of this risk, and some are home to those who are least able to afford adequate insurance, compounding the impact of an extreme weather event.

While the opportunity exists to avoid adding to the stock of housing that is exposed to the perils of extreme weather events, it is necessary to have strategies to deal with those buildings that will continue to experience the consequences of these events. This will more than likely include buildings that can no longer be insured or where the premiums make this unrealistic for many.

To tackle these situations, different approaches must be taken. In some cases, practical infrastructure measures can be effective at reducing risk, while in others, options like co-funding programs that identify and tackle legacy issues with regional risk factors, For example, the buyback schemes implemented in New South Wales and Queensland after the recent floods.

While transparency of extreme weather event risks is important to convey to the general public and enable informed choices, exactly how this is done needs to be carefully managed. This is particularly the case with existing communities, who can have difficulty absorbing, and in some instances resent efforts to relocate, when it affects them adversely, such as when it is perceived that their property values will be impacted. In these circumstances, providing improved land-use planning literacy and recognising lack of options can often help.

Insufficient consideration of risk at the planning stage and a deficiency of effective resilience in construction increases risks, puts lives in harm's way and results in higher insurance premiums. These problems are compounded by the shortage of affordable housing and the location of jobs.

As populations expand, the pressure for new houses to be built in higher risk areas will grow. The threshold of acceptable risk needs to be reconsidered and the consequence of current and future extreme weather, not just the probability, needs to be taken into consideration.

The Insurance Council strongly agrees with National Cabinet that the days of developing on floodplains need to end and welcomes the development of a national standard that considers disaster and climate risk as part of land-use planning and building reform processes. Importantly, the other key peril risks must be considered in addition to flood.

Alongside the development of a new national approach, the Insurance Council is urging state, territory and local governments to focus on avoidance, mitigation, and the impacts of a disaster at the time of planning approval. Future financial losses and costs to homeowners, businesses, governments, and the community can be avoided with better government planning and investment.

Administration of land-use planning is made more difficult given divided responsibilities between state and local government. There is a large disparity in the resource capabilities amongst local governments and on many occasions, information is incomplete, potentially inaccurate, and out of date. Floods, bushfires and coastal hazards do not respect local government boundaries and hazards are usually managed over multiple council areas, with actions in one council area potentially impacting another. In some cases, decisions by local councils are overridden by independent planning panels, creating further complexity.

Understanding the risk posed by extreme weather at a regional and local level will significantly enhance the ability of planning instruments, and the decisions made within them, to be undertaken fully cognisant of current and emerging risk. Planning for extreme weather events should be state-led, catchment-based and locally informed, incorporating flood risk and utilising water catchment boundaries rather than local government boundaries.

The capacity to accommodate new dwellings in an area should be understood before the setting of housing targets for local governments. Councils should provide input into the strategic planning at the catchment level and receive direction from the State on where housing should not be planned as part of the development of regional plans.

Governments must improve how the likelihood and consequences of flood risk are communicated to the Australian public. For example, the term 'one in one-hundred-year flood' risk has been mistakenly understood by many in the community to mean a property should flood once in every one hundred years. In reality, a one per cent chance of flooding each year means a property is more likely than not to flood significantly at least once in 70 years. It also doesn't exclude the possibility of an event of similar size occurring in a shorter timeframe once it has been experienced.

Alternatives to explaining flood risk to communities should be tested, coupled with community education on what Annual Exceedance Probability (AEP) risk mean for Australian's and their homes. This work should complement improved public availability of data, as it has a critical role in improving and standardising the collective understanding of climate risk and how to prepare for it.

The Insurance Council's advocacy

▶ The Federal Government must:

- **Provide any necessary resources required for the Government**, working with the National Cabinet, to finalise the development this year of a national standard for considering disaster and climate risk in land-use planning.
- **Prioritise establishment of 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.
- **Define at a property level whether the flood risk, bushfire, cyclone and coastal hazards is extreme, high or low requires consistent, reliable and accessible data.**
- **Work alongside state and territory governments and industry via the Hazard Insurance Partnership, to update, standardise and make publicly available climate hazard data** that considers long-term time horizons and prioritises the high impact extreme weather perils.
- **Improve the resilience of critical infrastructure, such as roads, bridges, water and sewers**; and to reduce the runoff area being generated by sealed surfaces in urban areas. This needs to be a collaborative effort with other levels of government, but the Federal Government has a critical leadership role in this space through several of its agencies.
- **Establish a nationally consistent asset register of buildings containing important risk and resilience characteristics,** prioritising high hazard zones in Australia. This may include information such as the following: housing construction type, wall construction, roof type, year of construction, floor height, BAL rating, renovations and retrofitting works. This is essential for current and future homeowners and renters as well as emergency services, insurers and banks to better understand climate-related impacts on the infrastructure.
- **Provide funding for schemes that address legacy building stock exposed to severe and repeated occurrences of extreme weather events**, in conjunction with state and territory governments.

▶ State and Territory Governments must:

- **Ensure state strategic policy and local government planning schemes require consideration of current and future extreme weather risk**, including considering future impacts of climate change on new developments. These models should be regularly reviewed and schemes updated as the risk profile grows.
- **Use national projections and modelling to ensure the accuracy of extreme weather mapping to inform where development can occur at the local level**, providing funding or other support to local governments that are under-resourced.
- **Use planning powers to limit new development in areas prone to high risk from extreme weather events, such as flooding, bushfires, cyclones, and coastal hazards**. Consider mandatory climate change risk assessments to identify these vulnerable areas. In some cases, it will be necessary to back zone high-risk land, while in other cases, implementing stronger construction standards and resilience investments will suffice to reduce risk. When developing regional plans, prioritize areas with zero to low extreme weather risk for new development, taking into account the probability of hazards occurring and their potential impact on property and life.
- **Review land-use planning arrangements to establish a catchment-based approach for flood hazard management**, based on recognised water catchment boundaries and considering current and projected extreme weather events and input from relevant councils.
- **Identify and resource areas that require further flood, cyclone, bushfire and coastal hazard studies** to better understand and manage these risks.
- **Where appropriate, commit to mitigation infrastructure before housing targets** are given to councils.
- **Test more effective public messaging to explain flood risk to communities**, coupled with community education on what Annual Exceedance Probability (AEP) risk means for Australian's and their homes.
- **Make hazard information a standard feature of contracts for property buyers and renters**.
- **Require more disclosure of extreme weather risks** at the real estate stage of property acquisition.

National Construction Code and Standards

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 NCC is developed by the Australian Building Codes Board (ABCB) with consideration of issues of building design, construction, performance and liveability that are the minimum necessary to achieve health and safety, amenity and accessibility, and sustainability. Resilience is an important feature of sustainability, which provides for communities and individuals to be able to re-establish themselves following an event and in doing so providing for their on-going health and amenity.

The Federal Government 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.

A 2021 report[4] by the Centre for International Economics, commissioned by the ABCB, highlighted that up to 72 per cent of residential properties in Australia have defects with an estimated cost of $2.5 billion per annum. The report also highlighted that the full economic impact could be much worse, citing the example of the Opal Tower building in Western Sydney, where the cost of defects was assessed at $1 million, however, the full remediation cost exceeded $27 million.

To remedy these challenges, State Governments must continue to action the recommendations of the Building Confidence Report, including working with the Federal Government, to develop nationally consistent requirements for the registration of building practitioners, their enhanced education and training, greater rigour in the certification of design and construction, and improved enforcement.

4. 'Building Confidence Report', Centre for International Economics. Published July 2021.

The Insurance Council's advocacy

▶ The Federal Government must:

- **Fund research on the minimal technical requirements needed to improve the resilience of buildings to better withstand current and future extreme weather events.** This research will support amendments to NCC and relevant standards in the next round of review.

▶ State and Territory governments must:

- **Through the Building Ministers Meeting, prioritise the development of amendments to the NCC** and relevant referenced standards, to include minimum technical requirements for building resilience that take account of current and future extreme weather events and climate change projections/modelling.
- **Continue to swiftly implement all the findings of the Building Confidence Report**, including ensuring competent practitioners are involved in the design and construction of buildings, supported by stronger auditing and enforcement to achieve compliance with the National Construction Code.

Insurance Council of Australia

About the Insurance Council of Australia

The Insurance Council of Australia is the representative body for the general insurance industry of Australia. Our members represent approximately 85 per cent of total premium income written by private sector general insurers, spanning both insurers and reinsurers. Our work with our members, consumer groups and all levels of government serves to support consumers and communities when they need it most.

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