Insurance Council
of Australia

Insurance Catastrophe Resilience Report 2022–23

Contents

Catastrophe and Significant Event numbering

Insurance Catastrophes (Cat) and Significant Events (SE) are numbered using the year and order in which they occur. As the Victorian, NSW and Tasmanian Floods were the third natural disaster declared an Insurance Catastrophe in 2022, it is known as CAT 223.

Significant Events are also incorporated into this numbering with the Central West Floods declared as SE 224, the fourth event for 2022. Likewise, the Newcastle Hailstorms in 2023, which was also declared a Significant Event, is known as SE 231 as it was the first declared event (Cat or SE) for 2023. This report covers Insurance Catastrophes and Significant Events since the publication of the 2022–23 Catastrophe Resilience Report.

What does a Catastrophe or Significant Event declaration mean?

A 'catastrophe declaration' from the Insurance Council of Australia escalates and prioritises the insurance industry's response to support policyholders affected by the natural disaster that triggered the declaration.

A catastrophe declaration means:

- Claims from affected policyholders are given priority by insurers.
- Claims will be triaged to direct urgent assistance to the worst-affected property owners.
- ICA disaster response specialists are mobilised to the affected location to work with government agencies, emergency services, local agencies and affected policyholders.
- Insurers mobilise their disaster response specialists to assist their affected customers with claims and assessments as soon as emergency services say it is safe to do so.
- An insurance industry taskforce is established to identify and address insurance related issues arising from the natural disaster.

When a Significant Event declaration occurs, the Insurance Council's preliminary data collection and stakeholder engagement catastrophe processes are activated, assisting the ICA and insurers to better assess the insurance impact of a particular event.

A Significant Event may be escalated to an Insurance Catastrophe if there is a material increase in claim numbers or complexity, if the geographical spread of this event is extended or in consultation with insurers.

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

Insurers have a unique insight into the risks and impacts of extreme weather. That is why the industry has long advocated for governments to prioritise policies that reduce the risk, and the cost of recovery, from these disasters.

We need long-term investment in resilience and mitigation infrastructure to reduce the impact of disasters before they occur. We need better land-use planning to stop new development in high-risk locations, and to relocate or buy-back properties that just cannot be protected from the risk. We need improved building codes, and to extend household-level resilience programs such as home raising and retrofitting to make buildings more resilient. And inefficient taxes on insurance must be removed to improve affordability.

The La Niña weather pattern that continued through 2022 brought record-breaking rain and flooding to the east-coast of Australia, as well as an unprecedented influx of claims. The 2022–2023 catastrophe season in Australia led to insured losses totalling $1.6 billion – all incurred in the four-month period between September 2022 and January 2023.

While individual events did not achieve the scale of previous flooding, some regions of New South Wales, Victoria and Tasmania had rainfall records broken, and some communities saw flooding at levels not reached in decades.

Again, we see evidence of the impact climate change is having on people and communities around Australia.

The findings of this report and the policy solutions it proposes must influence how our country thinks about the impact of extreme weather, and the policies we need to help build a more resilient Australia.

Nick Hawkins
President

Introduction

This is the third year the Insurance Council has published our *Insurance Catastrophe Resilience Report*. While the financial impact of insurance catastrophes over the past 12 months was around one fifth of the previous record-breaking period, this review still provides valuable lessons on the strategies we need as a nation to mitigate the risks arising from worsening extreme weather events.

Like last year's report we continue to focus on floods – Australia's most destructive and widespread natural hazard – and the impact that months of rain and inundation has had on impacted communities. The findings of this report paint a vivid picture of the complex threat of floods to at-risk communities and the influence these types of events are having on insurance premiums now.

The combination of three years of sustained extreme weather events, rising inflation and the resulting growth in reinsurance costs are causing premiums to rise and these pressures are not going away. Insurance affordability is the number one concern of the insurance industry, that's why the Insurance Council and insurers have been advocating so strongly for measures that reduce risk and so moderate pressures on premiums.

But mitigating risk across the nation requires sustained investment and is a medium to long-term solution. We need governments to act now and reform state insurance taxes to bring immediate relief to homeowners and businesses.

Just as there are lessons for governments out of the sustained period of extreme weather events we have lived through, so there are lessons for insurers. That's why in April the Insurance Council commissioned an independent review Australia's costliest extreme weather event, the flooding that hit south-east Queensland and northern New South Wales in February and March of 2022, which will be released in late 2023.

As part of this year's report, we have included new normalised costs of insurance catastrophes going back to 1967. This process not only adjusts the cost of those events to 2023 values allowing us to compare their historic impact, it also calculates the effect of those events were they to happen today, providing valuable information for insurers, reinsurers, and governments.

The more benign weather conditions we have experienced through 2023 should not provide false hope that the issues of worsening extreme weather risk have gone away. We must continue to keep up our efforts to reduce risk in this country if we are to maintain the quality of life we so value. We trust this report adds further to those efforts.

Andrew Hall
CEO and Executive Director

Insurance Affordability: What is to be done?

Insurance affordability is the number one concern of the insurance industry, that's why the Insurance Council and insurers have been advocating so strongly for measures that reduce risk and so moderate pressures on premiums.

Like many other goods and services, over 2022–23 the cost of insurance has been impacted by very high inflation. But higher premiums are also being driven by the impact of extreme weather events in Australia and overseas, the growing cost of reinsurance, and scarcer capital making riskier activities more expensive to insure.

In 2022 alone, there were more than 302,000 disaster related claims lodged from four declared insurance events across the country, costing $7.28 billion in insured losses.

Six billion dollars of these losses were from the northern New South Wales and south-east Queensland floods in early 2022, known as Cat 221. This was the second costliest insured event in the world last year and the costliest insured event recorded in Australia.

The cost of recovering from these disasters has been worsened by the impact of inflation. The Cordell Construction Cost Index[1] showed that residential construction costs rose 12 per cent in 2022, higher than CPI over the same period.

The impact of extreme weather on Australian shores is increasing the global cost of reinsurance. Reinsurance costs rose to 20-year highs this year, with Australian insurers facing cost increases of up to 20 to 30 per cent. Global events have cost impacts in Australia too – the impact of Hurricane Ian in Florida made last year the third-costliest Hurricane season on record, contributing to global pressures in the reinsurance market.

The rising costs of insurance inputs and of capital are resulting in a hardening insurance market, leading insurers to reduce their exposure to some risks, impacting coverage in some lines of insurance.

1 Corelogic's Cordell Construction Cost Index 4Q22.

Reducing risk requires government action

Other than inflation, higher insurance premiums are being driven by higher risk, so reducing pressure on premiums requires reducing risks. Reducing risks associated with disasters requires long-term planning and investment to better protect Australians and their assets. This means greater infrastructure investment, changes to new and existing homes, and the removal of unfair taxes that inflate premiums and penalise insurance customers.

These solutions have different time horizons and require coordination and investment, but insurance affordability is only going to get worse if governments don't act now before the impact of climate change on premiums is fully felt. If these solutions are implemented those currently facing the highest risks – and so facing the greatest increases to their insurance costs – would see the biggest benefit.

ICA policy recommendations

- Increased investment in resilience and mitigation funding, as part of a 10-year rolling program with indexed funding to reduce risk.
- Better land-use planning to stop new development in high-risk locations and buy-backs of existing homes where there is no viable way to protect against the risk.
- Improved building codes and extension of household-level resilience programs such as home raising and retrofitting to make new and existing buildings more resilient.
- The reform of unfair state taxes that increase the cost of insurance.

How does insurance work?

Insurance prices the likelihood of damage or loss, and this cost is reflected in the price of the premium. The cost is generally determined by assessing a customer's exposure to risks, the likelihood of those risks causing damage or loss, and the amount it would cost to repair, replace, or rebuild what is insured.

There are other costs that are also covered by the price of the premium, and these include business costs like staff and buildings, taxes, and reinsurance. Reinsurance is insurance for insurers that is purchased on a global market, and it protects insurers so that when higher than expected claims occur they have the funds to pay those claims.

The insurance premiums paid by customers are pooled, effectively distributing the risk across thousands of customers with similar risks. These pooled funds are invested for security and growth.

Regulators specify minimum amounts of funds that insurers must have access to – either through reinsurance or their own balance sheet – to ensure they can meet their obligations to pay their customers and remain financially strong.

Insurer profits are cyclical and often impacted by factors outside of their control, including extreme weather events. Because of a large number of very significant extreme weather events insurers experienced historically low profits in 2020, 2021, and 2022.

Over the 2022–23 financial year more benign weather conditions, better investment returns, and improvements in some commercial lines allowed insurers to rebuild pools depleted over the last three years of historically high claims costs.

Pricing Risk

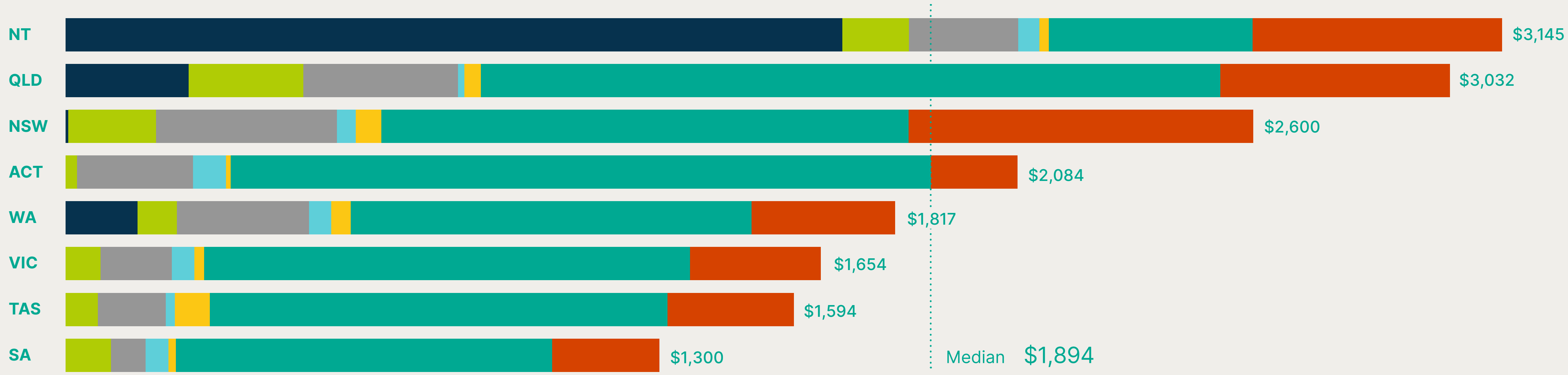
Premium components

- Taxes
- Insurer Costs
- Bushfire
- Earthquake
- Storm
- Flood
- Cyclone

In the **Northern Territory, greater cyclone risk** is the primary driver of insurance premiums, contributing more than half the average cost of premiums.

In **Queensland, greater storm, cyclone,** and **flood risk**, plus **higher insurer costs** related to these risks, take insurance premiums above national average.

In **New South Wales, storm** and **flood** are the primary peril-related drivers of insurance premium costs, and this is compounded by **taxes** that are higher than in any other jurisdiction.



Insurance premiums are calculated based on the risks the policyholder is exposed to, insurers' business costs, and taxes. Recent analysis from the Actuaries Institute on home insurance affordability calculated the median Australian home insurance premium cost at $1,894.

The Actuaries Institute's calculation of premium costs across states and territories does not account for regional or local risks or higher location-based materials or labour costs that would be required to settle a claim. Customers in locations at particular risk will have this additional cost priced into their premium, taking the cost above state and national averages. It is scenarios like this where risk reduction activities are a pressing necessity.

2 Paddam, S., Liu, C., & Philip, S. (2023). Home Insurance Affordability Update. Actuaries Institute. Sydney.

Ten Biggest Insurance Catastrophes

Past insurance catastrophes provide valuable lessons for the future. In August 2023, the Insurance Council commissioned Risk Frontiers to:

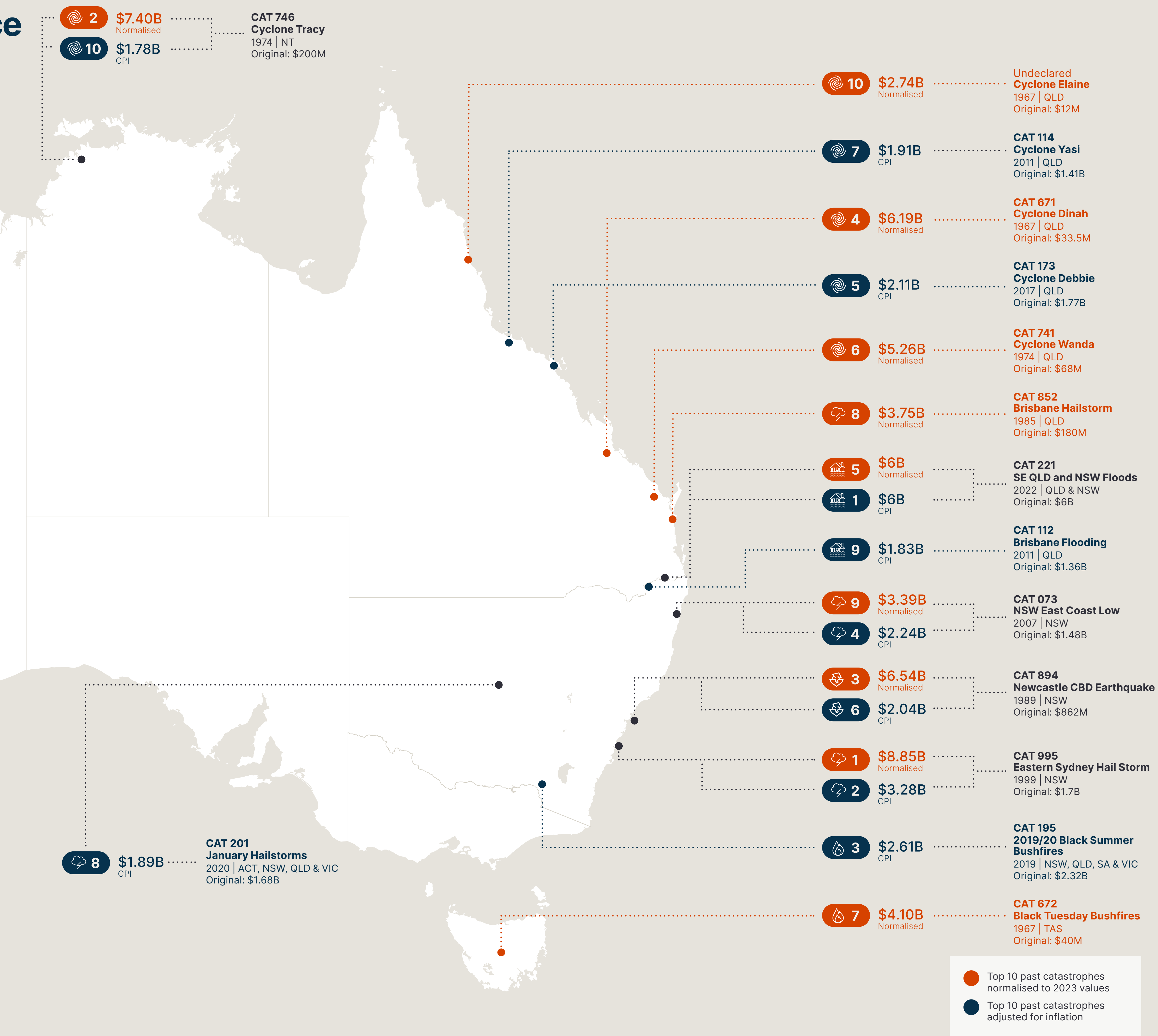
- Readjust the cost of past insurance catastrophes for inflation, and
- Calculate the expected present-day impact of past insurance catastrophes by 'normalising' the cost.

This 'normalising' process considers current property numbers and values and building codes and assigns the costs estimated as a result of this process to past insurance catastrophes.

Viewing historic insurance catastrophes through a contemporary framework shows that last year's floods were not an outlier and that we can expect even more significant insurance catastrophes in the future, making the case for mitigation even more pressing.

This map presents Australia's ten costliest insured events since 1967 adjusted for inflation (navy key), and the ten costliest events normalised to present-day property numbers and values and building codes (orange key).

The complete list of Australian historic catastrophe data since 1967 can be found at www.insurancecouncil.com.au/DataHub.



2022–23
Insurance Catastrophe Overview

$1.6B
Incurred

61,713
Claims

$26K
Average claim

Timeline[3]

CAT 223
October 2022 | Victorian, NSW and Tasmanian Floods

SE 224
November 2022 | Central West NSW Floods

SE 231
May 2023 | Newcastle Hailstorm

SE 225
December 2023 | River Murray Floods

Compared to the previous 12 months, catastrophe activity over the 12 months from July 2022 was significantly less costly for insurers and impacted far fewer Australian communities.

Insured losses were just 22 per cent of the previous catastrophe season, but the events that did take place caused havoc and devastation to thousands, some of whom were still mopping up from La Niña events in the previous period.

The continual rainband over Australia in 2022 also resulted in an overflow of major river systems and dams across the east coast, leaving little to nowhere for floodwaters to travel – except inland.

In October, waves of heavy rainfall left vast areas of eastern Australia under water as these swollen rivers flooded the landscapes from southern New South Wales, Victoria and Tasmania.

Known as Cat 223, the flooding from 12 to 28 October resulted in significant damage to regional communities across three states, costing $736 million as a result of 22,151 claims.

Experts say it was the most devastating flooding event in Victoria's history, with the Bureau of Meteorology confirming 2022 included the wettest spring and wettest October on record for the State.

A fast-moving flood hit north-east Victorian communities such as Rochester, Echuca and Shepparton after several major river systems surrounding the region broke their banks, inundating homes and businesses.

It was a similar story in Tasmania, with intense rainfall causing the Meander, South Esk and Macquarie River systems to close roads to midland towns and flood through the notorious Cataract Gorge in Launceston.

Not long after, in November 2022, a downpour in central-west New South Wales caused severe flooding in areas surrounding the Lachlan River, including Cowra, Forbes and Condobolin, in a flood declared as SE 224.

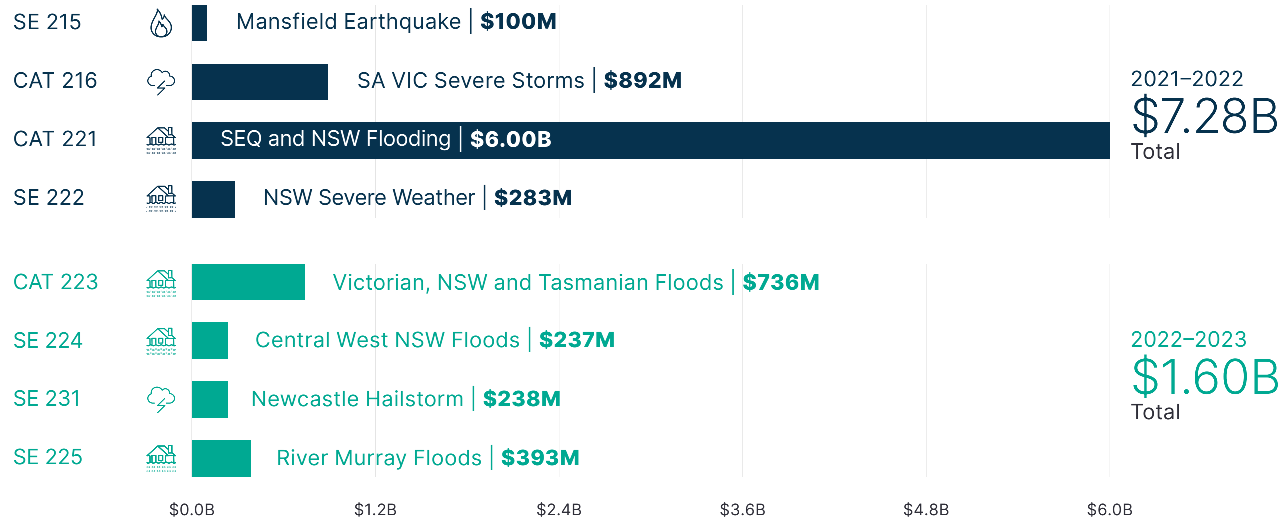
3 The early July 2022 severe weather and floods in the Hawkesbury Nepean area, known as SE 222, was reported on in last year's Catastrophe Resilience Report.

Catastrophe claims 2022–2023

● 87% Personal
$1.39B Incurred | 55,052 claims

● 13% Commercial
$213M Incurred | 6,661 claims

Loss incurred by event



The destructive rainfall and the eventual spilling of the Wyangala Dam left many communities completely isolated and helicopter rescue teams had to be called in to save some residents from the rising floodwaters.

The floodwaters flowed south to South Australia's Riverlands, where in December, holiday homes and fishing communities along the River Murray were rocked by their worst flooding in 50 years.

The cost of the damage for this event was substantial, with estimated claims reaching $393 million for just a little over 2,000 claims across a small number of insurers. The subsequent high claims cost is indicative of the severity of damage to affected homes, and the event has now been categorised as SE 225.

The final declared event was the hailstorms that hit Newcastle in late May. This event, declared SE 231, had a relatively high volume of claims but as most of these were for cars and other vehicles the event produced a low overall cost of claims. This concentrated motor exposure, along with rising motor vehicle and repair costs, was the primary complexity of this event.

Keep up to date

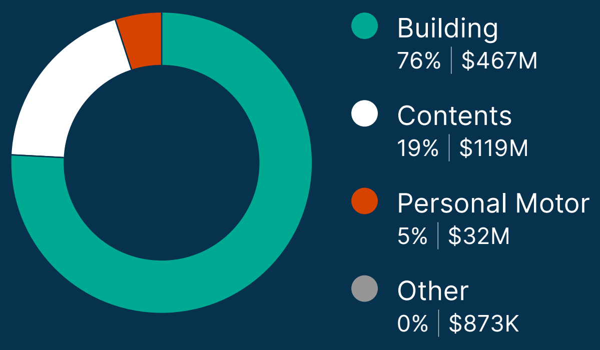
Cat 223
Victorian, NSW and Tasmanian Floods

$736M
Incurred

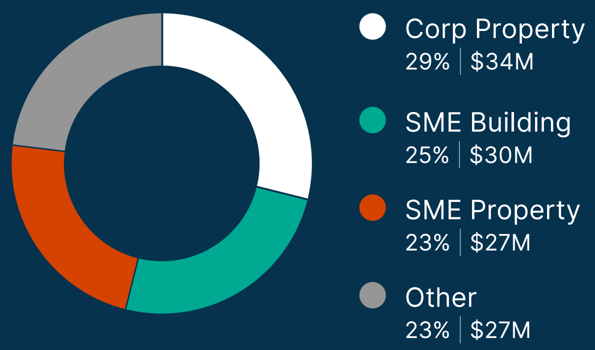
22,151
Claims

$33K
Average claim

Personal claims
$618M



Commercial claims
$118M



Overview

In October 2022 a low-pressure system travelled east over Australia, bringing heavy rainfall and storms across three of our eastern states. The rain hit ground which had already been left sodden from ten months of relentless La Niña-driven downpours.

High rivers, creeks and swollen catchments had little capacity to absorb the rain, impacting towns from south-east New South Wales to north-west Tasmania.

It was the most devastating flooding event in Victoria's history, with the Bureau of Meteorology confirming 2022 included the wettest spring and wettest October on record for the State.

The floods saw evacuations in Melbourne suburbs near the Maribyrnong River, and for northern Victorian communities along the Campaspe, Goulburn and Murray Rivers, including the towns of Shepparton, Rochester and Echuca.

The devastation was significant across large areas of the State. The torrential rain inundated more than eight river systems and catchments resulting in tragic loss of life, homes, and properties.

At the same time, about 500 kilometres northwest from Sydney, flood waters were tracking south through the Murray-Darling basin – Australia's longest system of rivers.

Rainfall totals across the basin neared 150 millimetres – four times the average for the month and well above the previous record from 1950.

Areas of southern New South Wales, including towns surrounding the Murrumbidgee, Lachlan and Murray Rivers, experienced prolonged flooding, devastating thousands of homes and farms.

In Moree, around 4,000 people were told to evacuate as water level rose on the Mehi River, leading to the fourth-worst flood on record for the area.

Image AAP

According to some estimates, flooding around Moree wiped out 120,000 hectares of wheat that was almost ready for harvesting.

In Tasmania, the same rainfall system was hitting the north and north-west of the state, flooding the Meander, South Esk and Macquarie river systems, causing road closures to midland towns of Latrobe and Deloraine and causing widespread flooding.

Some residents in the town of Liffey watched floodwaters race through their backyards and the famous Meander Sawmill was left in complete disarray. The rain caused flooding through the Cataract Gorge in Launceston, with floodwaters roaring through the Tamar River and impacting riverside towns.

Industry response

The Insurance Council immediately declared a Significant Event in Victoria, however quickly upgraded this to a Catastrophe declaration covering Victoria, New South Wales and Tasmania.

The already drenched landscape signalled the devastation that followed, which quickly confirmed the decisions to escalate insurers' response and prioritise claims for those affected.

From 18 to 20 October 2022, Insurance Council personnel were stationed at the Victorian State Emergency Services command centre to share real-time situational updates with insurers and help to escalate responses.

Once given the all-clear from emergency services, insurers deployed to recovery hubs in Maribyrnong, Rochester, Shepparton and Echuca.

The extent of the flood damage in the Victorian town of Rochester, which saw 90 per cent of the town inundated, has continued to be a central focus for insurers with a virtual townhall in the immediate aftermath of the floods, followed by four town halls and eight community consultation sessions held in either Rochester or Echuca since the event.

Issues with recovery

Claims delays were and continue to be felt in the areas impacted by these floods because of significant pressure put on the entire claims processing and supply chains following eight months of relentless rain, including the record-breaking floods of February and March 2022.

In particular, a shortage of experts required to assess and manage flood claims and building and labour supply constraints impacted claims response times.

SE 224
Central West Floods

$237M
Incurred

14,414
Claims

$16K
Average claim

On Saturday 12 November, a cold front and trough from the west combined to form strong thunderstorms over New South Wales and Victoria. By the next day central west New South Wales was bearing the brunt of heavy rain and flooding.

This was followed by the eventual spilling of the Wyangala Dam releasing up to 230,000 megalitres of water a day over several days. This surge of water caused severe flooding in areas nearby the Lachlan River, including Cowra, Forbes and Condobolin, prompting urgent evacuation orders.

The soaked soil and faster than anticipated floodwaters inundated local areas, with water rushing downriver faster than the Bureau of Meteorology and SES had anticipated, leaving communities with little time to evacuate, resulting in many residents having to be evacuated via SES helicopters.

The official flood-peak in Eugowra reached over 11 metres, half a metre higher than the town's estimate for a one-in-5,000-year flood event.

Homes, businesses, and farms were inundated, with a number of houses lifted off their foundations because of the sheer force of the water. The townships of Eugowra, Forbes and Molong were particularly impacted.

A lack of flood insurance for many impacted residents has caused significant concern, with many policyholders navigating uncertainty while their claim was assessed by hydrologists, and without the certainty of government-led programs like those put in place in the Northern Rivers region of New South Wales or for south-east Queensland.

These severity of these floods on impacted communities is evident in the scale of damage caused, however the total of 14,414 claims and the tight geographical spread is consistent with a Significant Event Declaration which was made by the Insurance Council on 15 November 2022.

SE 224 Central West Floods
Catastrophe claims

72% Personal
$171M Incurred | 12,013 claims

28% Commercial
$66M Incurred | 2,401 claims

SE 225
River Murray Floods

$393M
Incurred

2,048
Claims

$192K
Average claim

On Christmas Eve 2022, thousands of residents along South Australia's Riverlands braced for the worst flooding in 50 years.

The Bureau of Meteorology warned that 190 gigalitres of water would flow through the river system and about 4,000 properties along the River Murray would be impacted in the weeks that followed.

The towns of Renmark, Berri, Loxton and Cobdolga were in the firing line after peak flows of up to 180 gigalitres per day reached the South Australian border on 23 December.

By Christmas Day, the Bolto shack community near Mannun was isolated after nearby roads were closed due to the rising floodwaters, leaving remaining residents unable to evacuate by road.

As the worst of the floods inundated popular holiday spots along the River Murray, experts were calling it a 'blue-sky flood' because there had been little to no rain in the region for weeks and the sky was, in fact, blue.

The nature of this kind of flood meant that the community, government, and insurers had time to prepare for this flood – in fact, communities were given many weeks notice which allowed for planning and preparation.

As many of the homes impacted were 'river shacks' or holiday homes, there weren't as many people in need of temporary accommodation compared to other flood events.

Despite the relatively low number of claims, the severity is apparent when considering the very high average claim cost of $192,000 and an estimated 15 per cent of properties impacted determined to be total losses.

This event was not declared a Significant Event or a Catastrophe at the time of occurrence, given the number of claims across a small number of insurers. However, given the severity of damage to impacted properties, the insurers with exposure to this event tracked claims and escalated their response consistent with a declared event, with the Insurance Council also hosting an insurance information session in Adelaide. With this considered, the Insurance Council has retrospectively declared this event Significant Event 225.

SE 225 River Murray Flood
Catastrophe claims

98% Personal
$384M Incurred | 1,970 claims

2% Commercial
$9M Incurred | 78 claims

SE 231
Newcastle Hailstorm

$238M
Incurred

23,100
Claims

$10K
Average claim

Around 2pm on Friday 26 May, a series of small but severe thunderstorms hammered the Newcastle region with hailstones, some reportedly as large as golf balls. By 3.30pm more than 600 claims had already been lodged, indicating a high number of claims to come.

The most impacted areas were geographically concentrated, with Belmont, Swansea, Merewether, Gwandalan, Charlestown, Blacksmiths, Marks Point and Warners Bay particularly impacted.

On Monday 29 May the Insurance Council declared a Significant Event for the Hunter and Central Coast regions of New South Wales impacted by the hailstorm.

This short, sharp hail event resulted in a high volume of claims, but ultimately not a relatively high value of claims. This is evident in the average claims cost of $10,000, driven by the relatively low number of home claims and the relatively high number of motor claims, with 45 per cent of personal claims costs and 40 per cent of total commercial claims costs attributed to motor claims.

Motor vehicle repair costs and second-hand vehicle values rose significantly in the post-pandemic environment due to supply constraints and inflation. This event's concentrated motor claim exposure added thousands more claims into that system, creating some local challenges. In response, insurers quickly stood up their mass assessment centres, where claims can be processed end to end at one location, to manage these challenges for their customers.

Following the storms, the Insurance Council and insurers were quick to warn impacted policyholders of the possibility of disaster chasers operating in the area, something that's unfortunately typical in the aftermath of hail and storms.

SE 231 Newcastle Hailstorm
Catastrophe claims

92% Personal
$218M Incurred | 21,733 claims

8% Commercial
$20M Incurred | 1,367 claims

Community Engagement

Community support is essential through the response and recovery stage of extreme weather events. Townhalls and other forms of community engagement are key ways the Insurance Council and insurers support customers in response to Insurance Catastrophes.

In-person consultations

Since July 2022, the Insurance Council has coordinated 47 separate community engagements, assisting about 1,000 people. These include one-on-one consultations between customers and their insurer, and townhalls with representatives from the Insurance Council, the Australian Financial Complaints Authority (AFCA) and Legal Aid, providing valuable information about legal rights and insurance complaints processes. We held 22 events related to Cat 221, 12 events related to Cat 223, 10 events related to SE 224, and one event related to SE 225.

Virtual townhalls

To provide flexibility to insurance customers, the Insurance Council hosted four virtual community townhalls, which also included participation from AFCA and Legal Aid. This type of engagement doesn't replace in-person engagement, however it does serve an important role when physical access to impacted areas is challenging and when information is needed quickly.

Community feedback themes

Insurer communications and claim management

The most consistent feedback from community forums was the desire for more frequent and clearer communication from insurers about the claims process, timeframes and the progress of their claims. In addition, customers expressed their desire for one claim manager throughout the process to avoid the need to tell their story to several claims managers.

Scope of works – building repairs and settlements

In many instances obtaining agreement on the scope of works was a hurdle in the progression and settlement of building claims. Improving customer awareness of what should be expected in a scope of works and adding to the scope of works will be beneficial for both customers and insurers.

Temporary accommodation

The provision of temporary accommodation proved difficult in regional and rural areas where claim volumes were large relative to the population of the affected town. Insurers were flexible and innovative, for example providing caravans as an accommodation option which allowed customers to remain in the community as recovery progressed.

Like for right

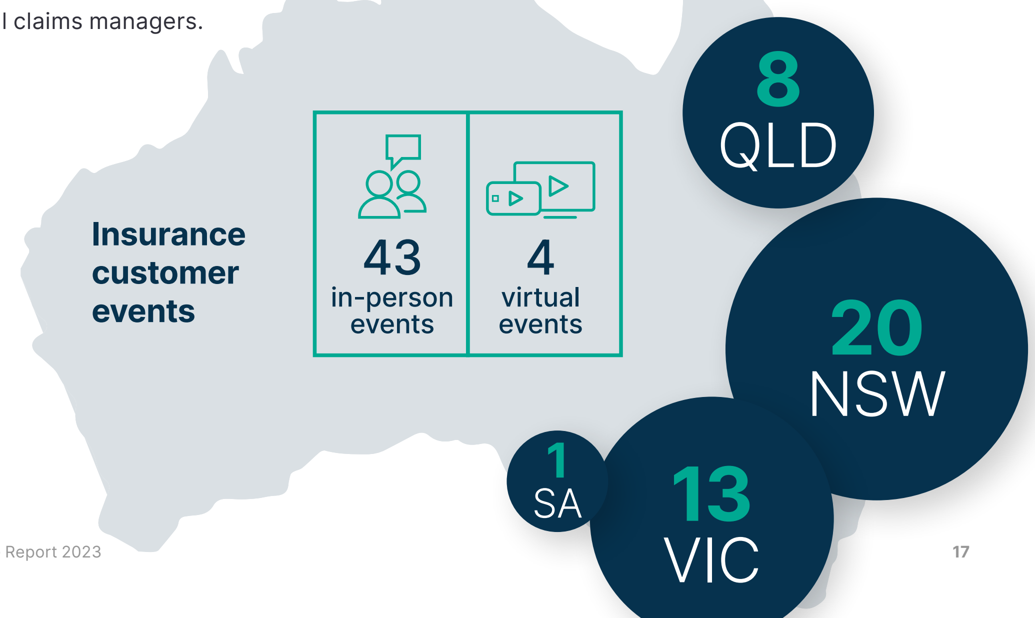
Customers, particularly those who had been impacted by flood more than once, were keen for greater choice or control around the rebuild process, with particular interest in building back 'like for right' rather than 'like for like' to better protect their property in the future.

Complaints process

Customers wanted to understand more about when and how to make a complaint. AFCA attended most engagements and was able to provide advice on best process for making a complaint.

Flood cover and hydrology reports

Given the number of flood events, customers wanted more information about the approach and process insurers take in determining how their property was inundated, how the definition of flood cover is applied, and the causes of delays in this process.



Progressing our Advocacy

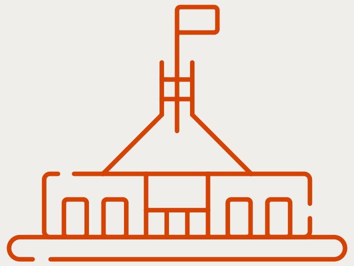
The Insurance Council's advocacy for more resilient communities has made an impact, but the importance and enormity of the need to reduce risk means there is still more work to do.

Increased investment in resilience and mitigation

The Insurance Council's *Building a More Resilient Australia* report launched ahead of the 2022 Federal election, advocated for the Federal Government to double its investment in resilience and mitigation from $100 million to at least $200 million a year, or $1 billion over the next five years, matched by the states and territories, a $2 billion investment to better protect Australian homes and communities.

Research commissioned by the Insurance Council from 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, delivering a return on investment of almost 10 times nationally.[4]

In the 2022–23 October Budget, the Federal Government announced a five-year, $1 billion Disaster Ready Fund for mitigation infrastructure, matched by co-contributions by the states and territories. When matched by state and territories, this is equivalent to $2 billion.



$2B = $19B
in reduced costs by 2050

Asked for
$200 million each year from the Federal Government matched by funding from states and territories over the next five years, equivalent to $2 billion over five years.

Delivered
In the 2022–23 Budget, the Federal Government announced a five-year, $1 billion Disaster Ready Fund for mitigation infrastructure and programs, matched by states and territories.

Buy-back schemes

The Insurance Council was an early advocate for home buy-back schemes, encouraging all state and territory governments to establish ongoing mechanisms and programs to support buy-back schemes in high-risk areas.

Buy-back schemes like this enable governments to help Australians to move out of harms' way before disasters occur, reducing the trauma and costs to individuals, communities, and governments from future disaster events.

Following the 2022 east coast floods, both the New South Wales and Queensland Governments established buy-back schemes co-financed by the Commonwealth Government, which have both experienced strong interest from residents in affected areas.

Asked for
Federal and state buy-back schemes to move people permanently out of harm's way where the risk is too great.

Delivered
Voluntary home buy-back scheme in flood-prone areas, co-funded by Federal Government, under the Queensland Government's Resilient Homes Fund and the NSW Government's Resilient Homes Program.

Hazard Insurance Partnership (HIP)

The Insurance Council's *Building a More Resilient Australia* report released in February 2022 called for an ongoing co-ordinated approach between insurers and government to identify and reduce risk, including improved data sharing to map a national data base of natural peril risks.

As part of the 2022–23 October Federal Budget, the Government announced a new partnership called the Hazards Insurance Partnership (HIP), a single touchpoint between the Australian Government and the insurance industry.

The HIP aims to bring government and industry together to share data and inform government decisions around mitigation infrastructure and better understand issues facing the insurance industry, with a goal to put downward pressure on insurance premiums.

Asked for
Greater co-ordination and collaboration on data collection and future mitigation projects between government and insurers.

Delivered
Introduction of the Hazard Insurance Partnership between the Australian Government and the insurance industry to share data and inform government mitigation projects.

4 'Reaping the rewards of resilience', Finity Report commissioned by the Insurance Council, published in 2022.

Policy Recommendations

Since the 2019–20 Black Summer bushfires, insurers have paid out more than $16.8 billion in natural disaster claims from 13 declared catastrophes and 5 significant events.

$16.8B

13

Risk reduction essential

During 2022 alone there were more than 302,000 disaster-related claims lodged from four declared insurance events, totaling $7.26 billion in claims.

Federal, state and territory governments can improve Australia's resilience to future disasters and in doing so, moderate rising pressure on insurance premiums.

Federal, state and territory governments must:

- Increase investment in resilience and mitigation funding, as part of a 10-year rolling program with indexed funding to reduce risk.
- Prevent development of homes in high-risk locations and undertake home buy-backs where there is no viable way to protect against the risk.
- Improve building codes and support household-level resilience programs such as house raising and retrofitting to make buildings more resilient.
- Reform unfair state taxes and levies on insurance products that increase the cost of insurance premiums.

Greater investment in resilience and Mitigation projects

Given the long-term challenges posed by worsening extreme weather in Australia, investment in disaster resilience will clearly be required well beyond the five-year end date for budgeted Disaster Ready Fund 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 10-year program, as occurs with funding for land transport infrastructure and defence spending.

A 10-year program would provide much needed certainty and enable communities, insurers, and governments at all levels to develop a long-term, high-quality pipeline of projects that targets high risk areas, delivers the best return on investment by reducing risk.

Mitigation funding should also be indexed from 2023–24 so it does not fall in real terms.

A 10-year, indexed program would cost the budget approximately $2.5 billion over the medium-term, $1 billion less than the cost of disaster recovery payments and allowances in 2022 alone.

End development and undertake buy-backs in high-risk areas

The disasters experienced in Australia in recent years have highlighted the need for policy settings that more precisely, consistently, and deliberately consider the relationship between land-use planning and extreme weather risk.

In December last year, National Cabinet agreed that developing on flood plains must end and a national standard for considering disaster and climate risk as part of land-use planning was needed.

This idea may come under pressure as populations expand and additional housing is required. In August 2023, National cabinet set a new target to build 1.2 million new homes over five years from July 2024. It is now imperative that National Cabinet delivers on its commitment to consider disaster and climate risk as part of land-use planning and building reform processes.

In July, the Insurance Council, Master Builders Australia and the Planning Institute of Australia, supported by the Australian Local Government Association, convened a National Roundtable on land-use planning and resilience with key recommendations sent to Planning Ministers, advocating for:

- Planning Ministers to develop a national standard for considering disaster and climate risk, as agreed by National Cabinet.
- No new developments in areas at extreme risk of flood, bushfire, cyclone and coastal hazards, factoring in current and future climate modelling.

Stronger homes

The increased severity and frequency of extreme weather events requires more resilient and durable homes. To enable this, the principle of resilience must be embedded in the National Construction Code, taking account for current and future extreme weather events and projections.

All governments should also invest in programs that support disaster mitigation projects for individual households, such as house raising and retrofitting to make homes more resilient.

This has been factored into the Queensland Household Resilience Program and the New South Wales Resilient Homes Program but these programs need to expanded to other areas within Queensland and New South Wales, and adopted by other states.

Reform unfair taxes on insurance

A key barrier to insurance affordability is the imposition of unfair and inefficient state taxes and charges, such as stamp duty and levies to fund emergency services. In states and territories where stamp duty is charged on top of the GST, consumers are being double taxed on their insurance premiums.

Consumers are being triple taxed on their premiums in the states like New South Wales that maintain emergency services levies. These taxes can drive up premiums by 20 to 40 per cent, not including the impact of GST.

Multiple government reviews have criticised the impact of taxes on insurance, including the Henry Tax Review, Thodey Review of Federal Financial Relations and ACCC Northern Australia Insurance Inquiry.

The Commonwealth and state and territory Treasurers, through the Council on Federal Financial Relations, should consider ways to remove inefficient taxes on insurance as a the most direct way to improve the availability and affordability of insurance.

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 90 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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