



Insurance Council  
of Australia

13 September 2023

## **Climate Change Authority | Economic modelling of potential Australian emissions reduction pathways Consultation paper -August 2023**

To whom it may concern,

### **Climate Change Authority | Economic modelling of potential Australian emissions reduction pathways Consultation paper - August 2023**

The Insurance Council of Australia (Insurance Council) thanks the Climate Change Authority for the opportunity to provide feedback on the Consultation paper - Economic modelling of potential Australian emissions reduction pathways. 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 \$41 billion per annum and on average pays out \$188 million in claims each working day.<sup>1</sup>

The Insurance Council and its members welcome the economic modelling of emissions reduction pathways. To ensure this exercise effectively assists insurers to consider all plausible climate scenarios, the ICA and its members recommend that the Australian Government's economic modelling include the Network for Greening the Financial System (NGFS) 'hot house' scenario, as well as including an assessment of the effects of physical climate change impacts.

Further detail is provided below.

### **Do you think the proposed global action pathways provide an appropriate context for assessing potential Australian emissions pathways?**

The Australian Government's modelling exercise should include an NGFS emissions pathway which is still likely but comes with significant climate impacts. The NGFS' 'hot house' world scenario assumes global temperatures rise by 3°C degrees Celsius by 2100. This is consistent with current Nationally Determined Contributions that reflect an aggregate reduction in the average global temperature to 2.7°C degrees.<sup>2</sup> This scenario represents an extreme yet plausible future trajectory of climate change if global efforts are insufficient to halt global warming.

Including an additional pathway in the modelling exercise would align with the Australian Government's mandatory climate disclosure framework which will require reporting entities to disclose climate resilience assessments against at least two possible future states, one of which must be consistent with a below 2°C and pursuing 1.5°C pathway. This would also align with the approach undertaken by the Australian Prudential Regulation Authority (APRA) as part of its Climate Vulnerability Assessment (CVA) of Australia's five largest banks which was based on a 2°C scenario and a 'hot house' world scenario.<sup>3</sup> Alignment would provide guidance to entities who have stressed the difficulty of choosing

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<sup>1</sup> APRA Statistics August 2023

<sup>2</sup> UNEP, What are NDCs and how do they drive climate action, May 2023, <https://climatepromise.undp.org/news-and-stories/NDCs-nationally-determined-contributions-climate-change-what-you-need-to-know>

<sup>3</sup> APRA, Climate Vulnerability Assessment, September 2021, [https://www.apra.gov.au/sites/default/files/2021-09/Climate%20Vulnerability%20Assessment\\_1.pdf](https://www.apra.gov.au/sites/default/files/2021-09/Climate%20Vulnerability%20Assessment_1.pdf)

scenarios<sup>4</sup> to underpin climate disclosures. It would also encourage the standardisation of scenario selection, reduce fragmentation and improve comparability across entities and sectors.

### **How do you think the authority should capture the potential benefits of stronger action to reduce national and global emissions in its modelling? Are some approaches better than others?**

The authority could explore or assess the benefit of a reduced requirement for government investment in disaster recovery, compared to a scenario where Australia takes significantly less action to reduce its emissions. The modelling could consider a scenario where the Australian government, in partnership with state and territory governments, implements resilience investment measures and land-use planning reforms which significantly reduce risk. These measures and reforms are outlined in the ICA's [Building Australia's Resilience - Policy Recommendations](#) and would support communities to be better prepared for, and recover more quickly from, disaster events.

Since 2005, Commonwealth expenditure on disaster relief was \$24 billion while spending on disaster resilience was just \$500 million - or around two per cent of all expenditure<sup>5</sup>. 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 penalize insurance customers. Modelling the avoided cost of disaster recovery by assuming a number of resilience measures are executed, would illustrate the long-term economic benefits that would accrue over time as emissions reductions reduce the risk and cost of climate-related disasters.

### **Are there any other issues the authority should consider as part of its modelling exercise?**

The Australian Government's modelling exercise must assess the economic effects of physical climate change impacts. 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.<sup>6</sup>

The insurance industry is uniquely placed to understand the physical impacts of extreme weather. 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.<sup>7</sup> 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.<sup>8</sup> Six billion dollars of these losses were from the northern New South Wales and south-east Queensland floods in early 2022, the second costliest insured event in the world last year and the costliest insured event recorded in Australia.<sup>9</sup>

Including physical risks in the economic modelling exercise would provide a more accurate representation of the potential future scenarios that businesses, governments, and individuals may face and would help to identify vulnerabilities and potential hotspots, allowing insurers and government to develop more effective strategies for risk mitigation and adaptation. Conversely, ignoring physical risks could result in overly optimistic economic assessments that does not reflect the real-world challenges posed by climate change.

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<sup>4</sup> The Treasury, Climate-related financial disclosure Consultation paper, June 2023, [Climate-related financial disclosure - consultation paper \(treasury.gov.au\)](#)

<sup>5</sup> McKell Institute for the Insurance Council of Australia (2022) Insurance Catastrophe Resilience Report 2021-22

<sup>6</sup> McKell Institute for the Insurance Council of Australia (2022) Insurance Catastrophe Resilience Report 2021-22

<sup>7</sup> ICA CAT Data

<sup>8</sup> Insurance Catastrophe Resilience Report 2022-23

<sup>9</sup> Insurance Catastrophe Resilience Report 2022-23



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](mailto:ange.nichols@insurancecouncil.com.au).

Yours sincerely,

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