Insurance Council of Australia

17 November 2023

Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Chair

Inquiry into insurers' responses to 2022 major floods claims

The Insurance Council of Australia (ICA) welcomes the opportunity to provide a submission to this important inquiry.

2022 was a record year for flood losses in Australia and tested the systems the insurance industry uses to respond to extreme weather events. We welcome the approach of the Inquiry to take a whole-of-economy view of the ongoing challenges caused by flood events, including the impact of supply chain issues and skills and labour shortages.

In April this year, the ICA commissioned its own independent review of insurers' response to the February 2022 floods across South East Queensland and New South Wales, which we now know was the costliest extreme weather event in Australian history, undertaken by Deloitte. The review report was released in October and set out seven areas for action by insurers and the ICA to improve responses to future events. The ICA has accepted all seven recommendations in-principle and committed to undertake an independent review of implementation progress in the second half of 2024.

Insurers acknowledge there were failures of systems, processes and resourcing which impacted some customers as they progressed through their claims process last year. The industry apologises to those customers for whom claims were not handled to the standard the industry strives to achieve and we are working hard to better prepare for future extreme weather events.

Australia has the conditions to underpin an insurance industry at the global forefront of extreme weather responsiveness. Repeated exposure to such events, coupled with established disaster institutions and frameworks, means Australian insurers are well placed to show the world how to respond effectively and efficiently to extreme weather events.

2022 flood events

Across the four events being examined by the Inquiry, there have been 303,407 insurance claims lodged totalling almost $7.4 billion. At the time of the floods that affected South East Queensland and New South Wales in February, there were already 85,953 open insurance claims, driven by six declared insurance events in 2021.

Despite the unprecedented scale of the 2022 flood events, the prudential strength of Australian insurers meant that they were more than adequately capitalised to meet the significant financial costs associated with the events.

The ICA coordinated 66 community consultations across the four events, with 2,090 registered attendees from affected communities. The most recent consultations were held on 7-9 November in Parkes, Molong, and Eugowra for policyholders impacted by the Central West floods late last year.

Flood insurance in Australia

Deloitte's review into the February floods found that Australian insurers differ from their counterparts in other advanced economies because they provide policy benefits that result in the insurer taking control of rebuilding or repairing a property. This feature of Australian insurance policies reduces the burden on policyholders compared to a cash settlement, since they are not required to project manage the rebuild or repair of their property - which can be particularly challenging following a disaster that leads to shortages of builders, tradespeople and building materials. Such shortages were especially acute in Australia last year given the scale of flooding that occurred, compounded by the effects of inflation and two years of border closures and lockdowns.

Prior to 2007, most insurers did not provide flood cover as standard due to poor quality information and data regarding flood risk. Improvements in data and information about flood risk in the last two decades have resulted in flood insurance being offered as part of the vast majority of home building and contents policies in Australia.

Australian insurance policies have included a standard definition of "flood" since regulatory changes in 2012 following the 2010-11 Queensland floods. Some insurers allow for policyholders to opt-out of cover for floods, which often means insurers are required to seek expert assessments from hydrologists to determine the cause of damage to a property.

The scale and complexity of the 2022 flood events meant that hydrology reports were required in a significant number of cases. The capacity of hydrologists in Australia was overstretched, resulting in delays to assessments required to progress the claims of some policyholders.

There have been numerous significant changes to the regulatory environment for Australian insurance in recent years that have generally improved clarity for, and provided additional rights to, policyholders. These changes have included: strengthening of the General Insurance Code of Practice; the establishment of AFCA; application of unfair contract term protections to insurance contracts and recent strengthening and expansion of these protections; and recent regulatory and legislative changes to improve consumer outcomes and corporate governance such as the Financial Accountability Regime, Cash Settlement Fact Sheet obligation, ASIC's *Regulatory Guide 271 Internal Dispute Resolution* and the inclusion of claims handing in the definition of 'financial service'.

Affordability of insurance

The ICA welcomes the inclusion of affordability of insurance in the terms of reference for the Inquiry. Recent premium increases in Australia are being driven by the impact of extreme weather events such as the 2022 floods, development and growing asset values in high-risk areas, and higher inflation, especially in the construction sector. In response to all of these factors, global reinsurance premiums are rising.

The ICA is currently preparing a number of policy papers to examine the insurance 'protection gap' in Australia and the affordability of insurance in detail. These papers will be released in coming months and will be provided to the Committee to assist with the Inquiry.

Insurers will need to carefully consider how the costs of potential future investments in operational response processes and technology improvements to improve claims and complaints handing will impact on premiums.

Policy recommendations

Insurance provides financial protection against floods, but it is not a solution to flood risk. Addressing the risk of floods (and other natural hazards) in Australia should be a priority for all governments to keep people out of harm's way and improve insurance affordability.

The ICA has long advocated for policy solutions to reduce risk in Australia, including improved land use planning, better building standards, and investment in community mitigation infrastructure and household-level risk mitigation.

Action in these areas would both reduce the risk to individuals and communities (and in turn pressure on the insurance system) and reduce pressure on affordability over the longer term. These policy concepts have been well understood but have been kicked down the road for too long. Some will take years to fully implement and further delays will only continue exacerbate the challenges of higher migration and the future impact of climate change.

The ICA strongly supports the decision of National Cabinet in December last year to task planning ministers to develop a national standard for considering disaster and climate risk, and their declaration that "the days of developing on floodplains need to end". Moving from this general agreement to specific policies and clear direction will require strong leadership and significant effort.

In addition to policies to reduce natural hazard risk, the ICA is also calling on state and territory governments to remove unfair taxes on insurance that push up premiums. As recently noted in a report prepared for the Actuaries Institute, taxation is the second biggest contributor to home insurance premium prices after flood risk. If governments are serious about improving insurance affordability, this has to change.

Regards

Andrew Hall
CEO & Executive Director

The Insurance Council of Australia

The ICA is the representative body for the general insurance industry in Australia. ICA members represent approximately 85% of total premium income written by private sector general insurers, spanning both insurers and reinsurers.

The ICA's role during floods and other extreme weather events includes declaring 'insurance events', assisting in coordination of the insurance industry response and community consultations, and collection of data.

Declaring insurance events

An Insurance Event is a situation or set of circumstances that arises that can materially impact the normal practices, routines and operations of consumers, communities, and industry.

ICA has defined three categories of event (in order of escalation):

- Significant Event;
- Catastrophe; and
- Extraordinary Catastrophe.

Declaration of an insurance event triggers stakeholder engagement processes such as community townhalls, formal data collection from ICA members and naming of the event.[1] The four events included in the Inquiry terms of reference are categorised as follows:

- Catastrophe 221 (CAT 221) - SE Queensland and NSW floods of February/March
- Significant Event 222 (SE 222) – Hunter and Greater Sydney floods of July
- Catastrophe 223 (CAT 223) - Victorian, NSW and Tasmanian floods of October
- Significant Event 224 (SE 224) - Central West NSW floods of November/December

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

An 'Extraordinary Catastrophe' is a catastrophe that is so significant in size or magnitude or one that coincides with multiple other Catastrophes that the Board of the Insurance Council of Australia declares it to be extraordinary. Were an Extraordinary Catastrophe to be declared, the General Insurance Code of Practice provides for a longer time frame for insurers to make claims decisions (12 months instead of four).

The ICA Board elected not to declare an Extraordinary Catastrophe for CAT 221 because it would not improve outcomes for policyholders. An Extraordinary Catastrophe has never been declared and a recent review by Deloitte into the insurance industry's response to CAT 221 (discussed further below) recommended that the definition of Extraordinary Catastrophe should be reworked as part of an upcoming independent review of the General Insurance Code of Conduct so outcomes can be improved for policyholders and insurers.

Community consultations

The ICA leads a Catastrophe Operations Working Group of members that is focussed on monitoring and where appropriate coordinating the industry's response to declared insurance events. The Group generally meets daily in the early stages of event response and mobilisation.

---

[1] According to the category of event, the year the event occurred and chronological order of the event during the year.

During and following the 2022 flooding events, catastrophe operations were focused on community engagement and recovery collaboration with governments.

The insurance industry recognises the importance of a physical presence in communities following extreme weather events. The ICA coordinates an industry presence in recovery centres in the immediate aftermath of extreme weather events, as well as ongoing consultations through townhall events and opportunities for 1-on-1 consultations.

A physical industry presence at government recovery centres facilitates immediate relief operations such as lodging claims, booking damage assessments, discussing the claims process and issuing emergency payments.

The ICA leads townhall-style meetings with insurers in the weeks following a disaster to provide communities the opportunity to receive information about and discuss the claims process, complaints and other support services. External services and bodies including the Australian Financial Complaints Authority (AFCA), community legal services and financial counsellors also attend subject to community needs and availability.

The ICA also coordinates 1-on-1 consultations for impacted communities. These allow policyholders to book 1-on-1 time with their insurer or the ICA, as well as external services such as AFCA, community legal services and financial counsellors. These consultations may continue long after an event has occurred; for example, the most recent consultations for SE 224 were held on 7-9 November in Parkes, Molong, Eugowra.

Across the four flood events the inquiry is examining, the insurance industry has held 66 consultations with 2093 registered attendees.

Table 1 – Community consultations: townhalls and 1-on-1 sessions

Event	**Consultations**	**Registrations**
CAT 221 - SE Queensland and NSW Floods	34	1127
SE 222 - Hunter and Greater Sydney floods	1	80
CAT 223 - Victorian, NSW and Tasmanian Floods	18	771
SE 224 – Central West floods	13	115
Total	66	2094

In the aftermath of the four flood events, the ICA and industry also collaborated with governments on recovery efforts, including by providing situational insights early in response and recovery, providing claims data and pathways to escalate concerns, and advocacy regarding issues such as housing and resilient recovery.

Across the affected jurisdictions, the ICA primarily worked with the Queensland Reconstruction Authority and Department of Energy and Public Works, Resilience NSW, New South Wales Reconstruction Authority, Northern Rivers Reconstruction Corporation and Emergency Recovery Victoria.

Data collection

The ICA collects claims data from members that relates to declared insurance events and provides summaries of this data to ICA members and government stakeholders. Data dashboards are provided to local and state governments during and following a declared event to allow governments to understand the impact on their communities and respond accordingly.

Claims data collected by the ICA during declared events includes the number and value of claims, location, type of claim (i.e. building, contents, motor, commercial or personal) and when a claim is closed.

The ICA does not collect this data for claims outside of declared insurance events and does not collect data on premiums or have a role in how members determine premiums.

Flood insurance in Australia

Overview

Following the 2010-11 flooding events in Queensland, all home building, home contents, small business and strata insurance policies adopted a common definition of "flood":

> *"The covering of normally dry land by water that has escaped or been released from the normal confines of any lake, or any river, creek or other natural watercourse, whether or not altered or modified; or any reservoir, canal, or dam."*

Prior to 2007, most insurers did not provide flood cover as standard due to poor quality information and data regarding flood risk. Improvements in data and information about flood risk in the last two decades have resulted in flood insurance being offered as part of the vast majority of home building and contents policies in Australia.

Flood differs to other perils such as cyclones and earthquakes which can occur over wide areas with equal likelihood. In contrast, the likelihood and expected depth of flooding can be fairly accurately assessed at an individual address level using flood modelling. Insurers will seek to use the highest quality flood modelling available, which often means a local or state government flood study. Some insurers may also consider property-specific factors such as building materials, construction type and number of storeys.

Comprehensive flood insurance in Australia

The recent review of the industry's response to CAT 221 undertaken by Deloitte for the ICA found that Australian insurers differ from their counterparts in other advanced economies because they provide policy benefits that result in the insurer taking control of rebuilding or repairing a property; cash settlements are used only for emergency payments, where the customer requests this, or where rebuild or repair is not appropriate such as when the cost of repair exceeds the sum insured. Policies generally cover repairs to return the property to its original condition and resilience level, with an allowance for improvements to meet new building codes (however this does not normally extend to increasing flood resilience). These repairs generally come with a lifetime guarantee.

Deloitte found that this is a benefit that is not widely offered in other countries. For example, in the United States and Japan, most insurers provide cash settlements and, in the United Kingdom and Canada, insurers provide a mix of cash settlements and insurer-led rebuild or repair.

This feature of Australian insurance policies reduces the burden on policyholders compared to a cash settlement, since they are not required to project manage the rebuild or repair of their property, which can be particularly challenging following a disaster that leads to shortages of builders, tradespeople and building materials. Such shortages were especially acute in Australia last year given the scale of CAT 221 and other flood events, compounded by the effects of supply chain issues and two years of pandemic restrictions.

The reduced burden on policyholders is instead borne by insurers, which compared to their international counterparts face a far more complex challenge in managing the rebuild of thousands or tens of thousands of homes, with associated impacts and strains on internal resourcing and supply chains.

Flood cover opt-outs and the use of hydrologists

As noted above, Australian insurance policies have included a standard definition of "flood" since regulatory changes in 2012 following the 2010-11 Queensland floods. Some insurers allow for policyholders to opt-out of cover for floods as defined above.

Where a policyholder opts out of flood cover, they may still be covered for other types of water inundation such as storm or rainwater runoff. In such cases it is necessary for the insurer to determine the cause of damage at an individual property, which can require an expert assessment from a hydrologist.

The flooding events in 2022 were caused by very significant widespread and persistent rainfall. This meant that many properties were exposed to both run-off and flood. This differs from 'blue sky' floods where rain occurs upstream, causing flooding that impacts communities downstream where it is not raining.

The scale and complexity of the 2022 flood events in multiple locations meant that hydrology reports were required in a significant number of cases. Hydrologists are generally engaged for government and private planning purposes and do not have a significant surge capacity to provide their expertise following flood events. As a result, the capacity of hydrologists in Australia was overstretched, resulting in delays to assessments required to progress the claims of some policyholders.

How many properties are at risk?

The ICA has used the National Flood Insurance Database (NFID) to provide an evidence of the number of properties at risk of varying levels of flooding across Australia.

In partnership with local governments, the general insurance industry developed and licensed the NFID for use by insurers to assist in determining flood risk.

The NFID is an address database containing 13.7 million property addresses, overlayed with the known flood risk according to local government flood mapping. It was first generated in 2008. Commercial licensing arrangements between many local governments and the specialist flood risk experts who prepare the flood maps means it is not a public database.

Most insurers use NFID to assist in determining the flood risk to individual properties, however this is often supplemented by multiple other commercial and proprietary information sources. This means that the estimate below may differ to the risk assessment of individual insurers.

Tables 2-4 below show the number and distribution of properties:

- in the NFID database nationally and for each jurisdiction;
- exposed to of 5%, 2% and 1% Annual Exceedance Probability[2] (AEP) flooding (commonly known as 1-in-20, 1-in-50 and 1-in-100 year floods respectively);
- exposed to a Probable Maximum Flood[3] (PMF);
- with no flood risk;
- with unknown flood risk.

---

[2] A flood with a 1% Annual Exceedance Probability has a 1 per cent chance of being exceeded in any given year.
[3] The largest flood that could conceivably be expected to occur at a particular location, usually estimated from probable maximum precipitation.

Note that insurers will take different approaches to setting premiums based on numerous factors in addition to AEP, which could include the expected velocity of water, property construction type, number of floors and floor height. Flood insurance covers *all* possible flood events, meaning that insurers need to take into account the probability of floods that exceed 1% AEP, including the potentially very small probability of a PMF.

Data below from the NFID shows that:

- Known flood risks are concentrated on the east coast, with New South Wales, Queensland and Victoria having 78.1 per cent of total properties but account for:
    - 98.7 per cent of properties exposed to 5% AEP,
    - 94.3 per cent of properties exposed to 2% AEP,
    - 91.18 per cent of properties exposed to 1% AEP,
    - 94 per cent of properties exposed to a 1%, 2% or 5% AEP,
    - 86.3 per cent of properties exposed to a PMF.
- The damage from floods is disproportionate to the number of properties known to be exposed to flood risk. Despite flood events accounting for over 54 per cent of losses from declared insurance events in the last five years, only 4.4 per cent of properties nationally are exposed to 1%, 2% or 5% AEP.

Table 2 – Number of properties at risk by jurisdiction

State	5% AEP	2% AEP	1% AEP	PMF	5%, 2%, 1% AEP	No flood risk	Unknown exposure	Total properties
ACT	0	0	2,887	0	2,887	151,498	87,057	241,442
TAS	234	177	55	5,741	466	266,123	79,346	351,676
WA	71	201	12,711	560	12,983	1,386,609	143,903	1,544,055
NSW	123,475	37,150	44,540	188,063	205,165	3,570,472	833,265	4,796,965
SA	2,625	1,950	14,439	66,828	19,014	665,034	386,045	1,136,921
VIC	55,233	5,344	58,062	38,384	118,639	2,989,588	864,566	4,011,177
NT	859	2,448	1,821	350	5,128	75,394	31,557	112,429
QLD	46,958	35,792	227,128	236,095	309,878	1,824,210	871,812	3,241,995
AUS	229,455	83,062	361,643	536,021	674,160	10,928,928	3,297,551	15,436,660

Table 3 – Distribution of properties at risk within each jurisdiction

State	5% AEP	2% AEP	1% AEP	PMF	5%, 2%, 1% AEP	No flood risk	Unknown exposure
ACT	0.00%	0.00%	1.20%	0.00%	1.20%	62.75%	36.06%
TAS	0.07%	0.05%	0.02%	1.63%	0.13%	75.67%	22.56%
WA	0.00%	0.01%	0.82%	0.04%	0.84%	89.80%	9.32%
NSW	2.57%	0.77%	0.93%	3.92%	4.28%	74.43%	17.37%
SA	0.23%	0.17%	1.27%	5.88%	1.67%	58.49%	33.96%
VIC	1.38%	0.13%	1.45%	0.96%	2.96%	74.53%	21.55%
NT	0.76%	2.18%	1.62%	0.31%	4.56%	67.06%	28.07%
QLD	1.45%	1.10%	7.01%	7.28%	9.56%	56.27%	26.89%
AUS	1.49%	0.54%	2.34%	3.47%	4.37%	70.80%	21.36%

Table 4 – Distribution of risk classification across jurisdictions

State	5% AEP	2% AEP	1% AEP	PMF	5%, 2%, 1% AEP	No Flood risk	Unknown Exposure	Total Properties
ACT	0.00%	0.00%	0.80%	0.00%	0.43%	1.39%	2.64%	1.56%
TAS	0.10%	0.21%	0.02%	1.07%	0.07%	2.44%	2.41%	2.28%
WA	0.03%	0.24%	3.51%	0.10%	1.93%	12.69%	4.36%	10.00%
NSW	53.81%	44.73%	12.32%	35.09%	30.43%	32.67%	25.27%	31.08%
SA	1.14%	2.35%	3.99%	12.47%	2.82%	6.09%	11.71%	7.37%
VIC	24.07%	6.43%	16.06%	7.16%	17.60%	27.35%	26.22%	25.98%
NT	0.37%	2.95%	0.50%	0.07%	0.76%	0.69%	0.96%	0.73%
QLD	20.47%	43.09%	62.80%	44.05%	45.97%	16.69%	26.44%	21.00%

Changes in general insurance since 2010-11 floods

Overview

There have been significant changes in the general insurance market since the 2010-11 floods that have affected the provision of flood insurance. These changes have generally improved clarity for, and provided additional rights to, policyholders.

In addition to the standard definition for flood discussed above, these changes have included: strengthening of the General Insurance Code of Practice; the establishment of AFCA; application of unfair contract terms protections to insurance contracts and recent strengthening and expansion of these protections; and recent regulatory and legislative changes to improve consumer outcomes and corporate governance such as the Financial Accountability Regime, Cash Settlement Fact Sheet obligation, ASIC's *Regulatory Guide 271 Internal Dispute Resolution* (RG271) and the inclusion of claims handing in the definition of 'financial service'.

General Insurance Code of Practice

The 2020 General Insurance Code of Practice (Code) is the principal self-regulatory document for the general insurance industry. An independent body, the Code Governance Committee (CGC), monitors and enforces compliance with the Code.

The Code was first introduced in 1994 and has been periodically reviewed and updated to become more consumer-centric.

Members of the ICA offering general insurance products covered by the Code must subscribe to it and the ICA maintains a current list of Code subscribers on its website. Any other industry participant may also subscribe and the ICA encourages all general insurers to adopt the Code.

The Code sets out the best practice standards that general insurers must meet when interacting with individual and small business customers, including timeframes for insurers to respond to claims, complaints and requests for information from customers.

The Code provides for flexibility in change claims handling timeframes in certain circumstances, such as where the policyholder agrees to this, with the CGC providing guidance to assist Code subscribers with their approach. Various decision-making timeframes regarding claims and complaints that insurers are to meet are outlined in Box 1.

Box 1 – Selected claims decision making timeframes in the Code

Assessing your claim

- If you make a claim and we need further information or assessment, then within 10 Business Days of receiving your claim we will:
  - tell you any information we need to make a decision on your claim. We will use our best endeavours to do that in one request;
  - if necessary, appoint a Loss Assessor or Loss Adjuster to assess your claim; and
  - provide our estimate of the likely timeframe and process for us to make a decision about your claim.
- We will tell you about the progress of your claim at least every 20 Business Days.
- We will respond to your routine enquiries about your claim's progress within 10 Business Days.

Claim decision

- Once we have all relevant information and have completed all enquiries, we will decide whether to accept or deny your claim and tell you of our decision within 10 Business Days.
- Our decision will be made within 4 months of receiving your claim [unless certain circumstances apply, see below]. If we do not make a decision within that time, we will tell you in writing about our Complaints process.
- In circumstances where your claim arises from an Extraordinary Catastrophe [or other circumstances such as where the policyholder does not respond to requests for documentation or information],
  - then within 12 months of receiving your claim we will tell you our decision in writing. If we cannot make a decision within 12 months, we will tell you in writing about our Complaints process.

Changes to timeframes

- If any of the timeframes … are not practical due, for example, to the complex nature of your claim, we will agree a reasonable alternative timetable with you. If we cannot reach an agreement on an alternative timetable, we will provide details of our Complaints process.
- We must comply with the timeframes … unless any of the following apply:
  - we have complied with an alternative timetable to which you agreed;
  - our conduct, and the actual timeframe, were reasonable in all the circumstances;
  - the reason we did not comply with the timeframe was that a report from an External Expert was delayed, even though we used our best endeavours to obtain the report in time.

Complaints

- We will keep you informed about the progress of your Complaint at least every 10 Business Days, unless it is resolved earlier or you agree to a different timeframe
- We will make a decision about your Complaint within 30 Calendar Days. If we cannot make our decision within this timeframe, then before this deadline passes we will tell you, in writing, the reasons for the delay and about your right to take your Complaint to the Australian Financial Complaints Authority, and its contact details.

The ICA is committed to commissioning an independent review of the Code at least every three years as part of the Code's continuous cycle of improvement.

The most recent review of the Code commenced before the Financial Services Royal Commission and the review process was extended to address its recommendations. The review also incorporated feedback from ASIC, consumer representatives, the CGC, Financial Ombudsman Service (a predecessor scheme to AFCA) and other interested parties. The Code was significantly revised and improved and the most recent version was published on the ICA's website on 1 January 2020.

The updated Code added new provisions for supporting customers experiencing vulnerability, requiring insurers to take extra care with vulnerable customers so they can work with them to arrange additional support, including flexible options for customers experiencing financial hardship. Insurers must also have a family violence policy that is published on their website. Many insurers restructured their businesses and changed their processes and procedures to meet these Code commitments.

The updated Code also implemented *recommendation 4.10* of the Financial Services Royal Commission – adding a new Part 13 to empower the CGC to impose sanctions on a subscriber that has breached the Code. Previously, sanctions could be imposed only when a breach had not been corrected. The CGC can require a Code subscriber to make a Community Benefit payment of up to $100,000 in response to a significant breach.

On 14 November, the ICA announced the commencement of the next independent review of the Code, which directed the review panel to take into account the findings of the Parliamentary Inquiry[4]. The review will be conducted in two phases to allow for findings from the Parliamentary Inquiry to be considered by the review panel. The first phase of the review will focus on topics unrelated to the 2022 floods and deliver initial findings and recommendations by 30 June 2024. The second phase will then focus on flood-related topics and deliver findings and recommendations by 30 June 2025.

Establishment of AFCA

The establishment of AFCA in 2018 was a significant overhaul of the previous resolution dispute framework for financial services in Australia. AFCA now considers complaints that were previously handled by the Financial Ombudsman Service (which covered general insurance), Credit and Investments Ombudsman and the Superannuation Complaints Tribunal.

AFCA's monetary limit and compensation cap is significantly higher than those available under the Financial Ombudsman Service.

An independent review of AFCA was undertaken in 2021. AFCA is currently in the process of undertaking reforms to respond to the review's fourteen recommendations.

Unfair contract terms protections

Following a recommendation of the Financial Services Royal Commission, unfair contract terms protections were applied to consumer and small business insurance contracts entered into or renewed from 5 April 2021. Insurers worked with ASIC to proactively make changes to insurance policies in response, including:

- removing terms that gave insurers unilateral discretion to do something,
- removing or qualifying terms to reduce barriers for an insured person to lodge a claim,
- qualifying overly broad terms so that they only apply in specific situations,
- extending certain timeframes that might be difficult for an insured person to meet,
- removing or qualifying terms where compliance with preconditions was not feasible,
- amending terms to provide greater collaboration between the insurer and the insured around decision-making processes; and

[4] Independent Review of the 2020 General Insurance Code of Practice - Insurance Council of Australia.

- amending insurance policies to provide greater transparency and clarity for consumers.

From 9 November 2023, the unfair contracts regime expanded to include significantly more small businesses and small business contracts and provide clarification on standard form contracts. Financial penalties can also be imposed for the first time since the regime was introduced.

Regulatory changes

Multiple additional regulatory changes have come into effect in recent years aimed at improving outcomes for customers and strengthening governance arrangements, including in response to the Financial Services Royal Commission.

In September 2021, ASIC issued enforceable standards and requirements under **Regulatory Guide 271 (RG 271)** for internal dispute resolution. RG 271 explains what insurers and other financial services licensees must do to have an internal dispute resolution system in place that meets ASIC's standards and requirements.

The **Cash Settlement Fact Sheet (CSFS)** obligation commenced on 1 January 2022 as part of the response to the Financial Services Royal Commission. A CSFS is a written document that insurers must give to consumers when they are offered a cash settlement, setting out the options available to settle their claim. A CSFS must outline the options available to a consumer, for example having their goods repaired or replaced, or receiving a cash payment.

The timing of the commencement of the CSFS obligation meant it was first tested at scale in the response to CAT 221, the largest insured event in Australian history. The ICA applied for legislative relief from the obligation to allow insurers to give emergency payments to consumers in certain circumstances without first giving them a CSFS. The relief came into effect on 11 February 2022 and streamlined the process for insurers to advance consumers up to $5,000 in cash in emergency situations without first having to issue a CSFS, to avoid potential delays of payments to customers who needed immediate support.

On 28 September 2022, in response to a request from the general insurance sector, ASIC announced it would exempt insurers from providing certain notifications where doing so created the risk of family violence[5].

The **Financial Accountability Regime** (FAR) will replace the existing Banking Executive Accountability Regime (BEAR) and will be jointly administered by APRA and ASIC, unlike the BEAR which was solely administered by APRA. The FAR expands on and strengthens the BEAR accountability regime across the financial services sector, including insurers. The new FAR regime will come into effect for insurers in September 2024.

From 1 January 2022, **claims handling and settling services for insurance products regulated by ASIC were included in the definition of 'financial service'** in the *Corporations Act 2001.* The previous exclusion for these services was removed as part of the Government's response to the Financial Services Royal Commission. Persons who provided claims handling and settling services are now required to hold an Australian financial services licence and have meet associated obligations.

[5] 22-261MR ASIC helps insurers to respond to family violence | ASIC

2022 flood events

Overview

The flood events last year tested the systems the industry uses to respond to extreme weather events. The four declared insurance events being examined by the inquiry are:

- **CAT 221: New South Wales and South East Queensland floods**
    - 243,057 claims lodged.
    - On 26 February, the ICA declared an Insurance Catastrophe for severe weather and flooding that had impacted South East Queensland since 21 February[6]. At this stage, insurers had received 3,500 claims in the previous three days.
    - On 28 February, the ICA extended this Insurance Catastrophe declaration to include areas of NSW impacted by the ongoing event, noting that claims numbers were much higher than at the same point during recent flood events and were expected to increase. Since 21 February insurers had already received 15,000 claims across both states[7].
- **SE 222: Hunter and Greater Sydney floods**
    - 23,234 claims lodged.
    - On 5 July 2022, the ICA declared a Significant Event for regions of New South Wales impacted by severe storms and flooding[8]. The impact of flooding was felt most significantly around the Hawkesbury and Nepean Rivers, however all regions impacted by floods in New South Wales since 1 July fell under the declaration.
- **CAT 223: Victorian, New South Wales and Tasmanian Floods**
    - 22,367 claims lodged.
    - On 17 October, the ICA declared a Significant Event for regions of Victoria, New South Wales and Northern Tasmania impacted by flooding.
    - On 19 October, the ICA escalated this declaration to an Insurance Catastrophe[9]. The impact of flooding was felt most significantly in Victoria, however the declaration covered all claims relating to severe weather and flooding across the three states. At this time, insurers had received 6,350 claims across the three states affected.
- **SE 224: Central West New South Wales Floods**
    - 14,749 claims lodged.
    - On 15 November 2022, the ICA declared a Significant Event for parts of Central West New South Wales impacted by flooding since 12 November[10]. The impact of flooding was felt most significantly in Cowra, Forbes, Condobolin, Eugowra and Molong.

As at October 2023, there have been 303,407 claims lodged across the four events above, totalling almost $7.4 billion dollars (Table 5, further detail at Appendix A & Figure 1). At the time of CAT 221, the insurance system was already under pressure, with 85,953 open claims driven by six declared insurance events in 2021 (Figure 2).

---

[6] Insurance catastrophe declared for Southeast Queensland impacted by severe weather and flooding - Insurance Council of Australia.
[7] Insurance Catastrophe declaration extended to NSW - Insurance Council of Australia
[8] Insurance Council declares ‘significant event’ for NSW floods - Insurance Council of Australia
[9] Insurance Catastrophe declared for Victoria, NSW and Tasmania - Insurance Council of Australia
[10] Insurance Council declares ‘Significant Event’ for Central West NSW floods - Insurance Council of Australia

Despite the unprecedented scale of the 2022 flood events, the prudential strength of Australian insurers meant that they were more than adequately capitalised to meet the significant financial costs associated with these events.

Table 5 – Summary of flood events

Event	Type	Claims Lodged	Claims Incurred Cost	Average Claim Cost	Closed Rate
CAT 221	**Total**	**243,057**	**$6,093,060,248**	**$25,068**	**95.24%**
	Personal	218,893	$4,470,217,206	$20,422	95.84%
	Commercial	24,164	$1,622,843,042	$67,160	89.75%
SE 222	**Total**	**23,234**	**$283,830,416**	**$12,216**	**95.29%**
	Personal	21,979	$250,661,009	$11,405	95.46%
	Commercial	1,255	$33,169,406	$26,430	92.27%
CAT 223	**Total**	**22,367**	**$768,034,467**	**$34,338**	**85.42%**
	Personal	19,505	$639,454,205	$32,784	85.46%
	Commercial	2,862	$128,580,263	$44,927	85.22%
SE 224	**Total**	**14,749**	**$245,826,067**	**$16,667**	**91.00%**
	Personal	12,299	$178,637,442	$14,525	91.45%
	Commercial	2,450	$67,188,625	$27,424	88.69%
Total		**303,407**	**$7,390,751,198**	**$24,359**	**94.31%**

Figure 1 – Claims lodged over time

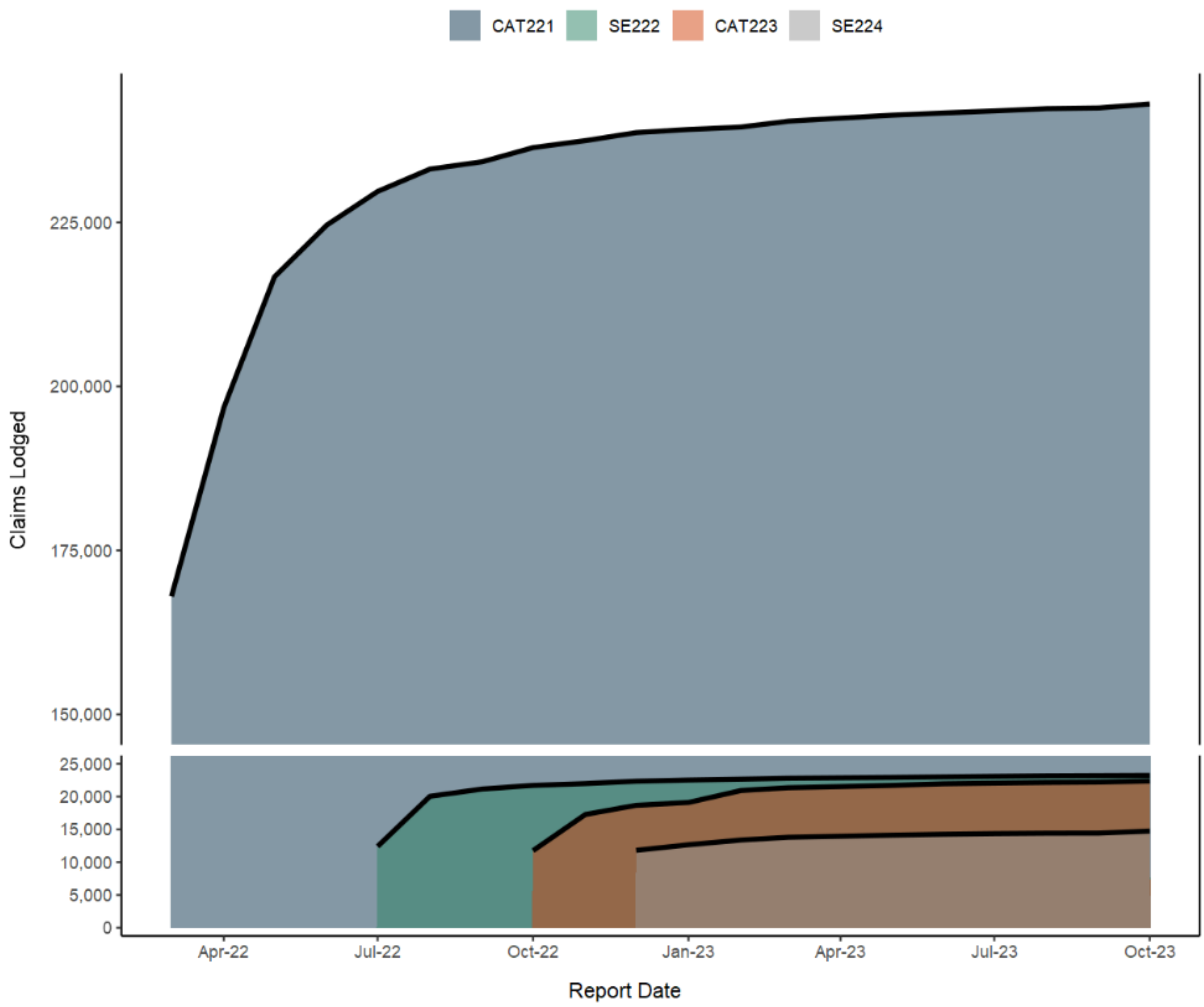
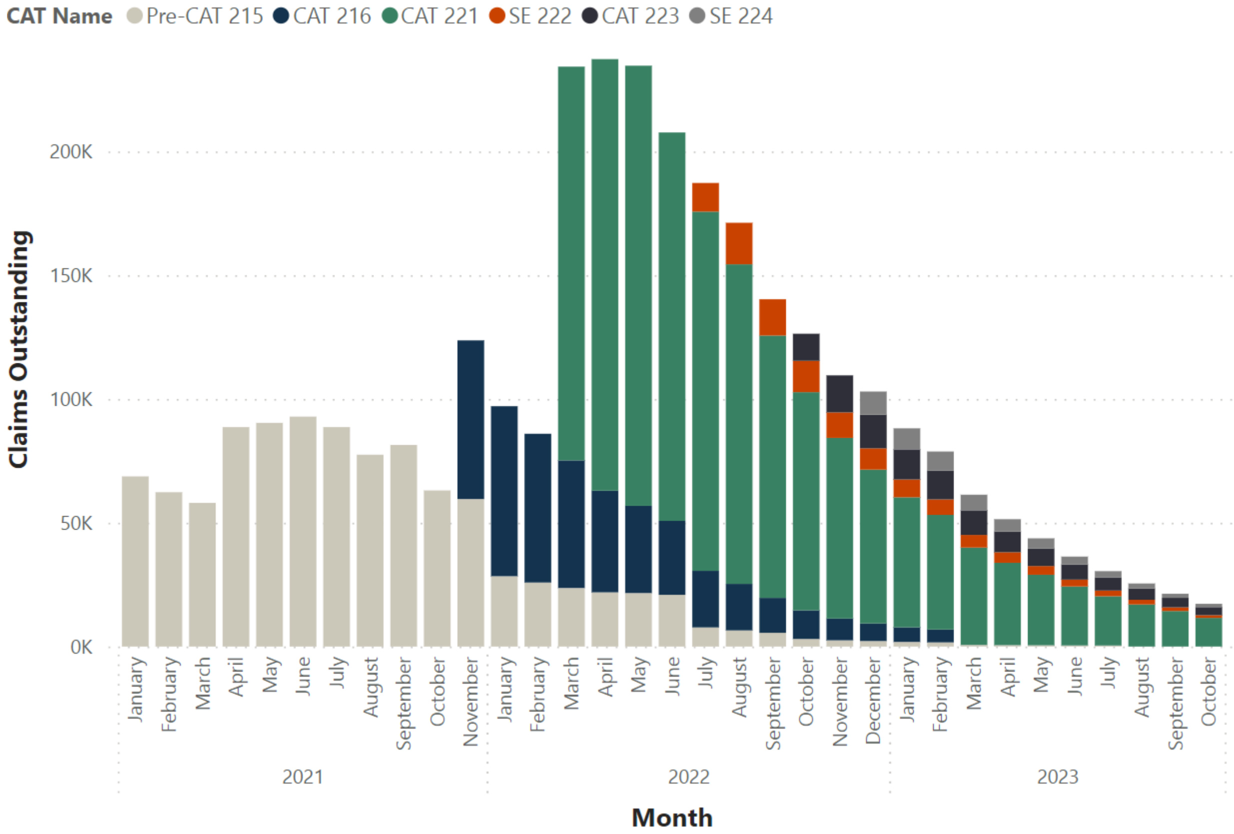


Figure 2 – Claims outstanding over time

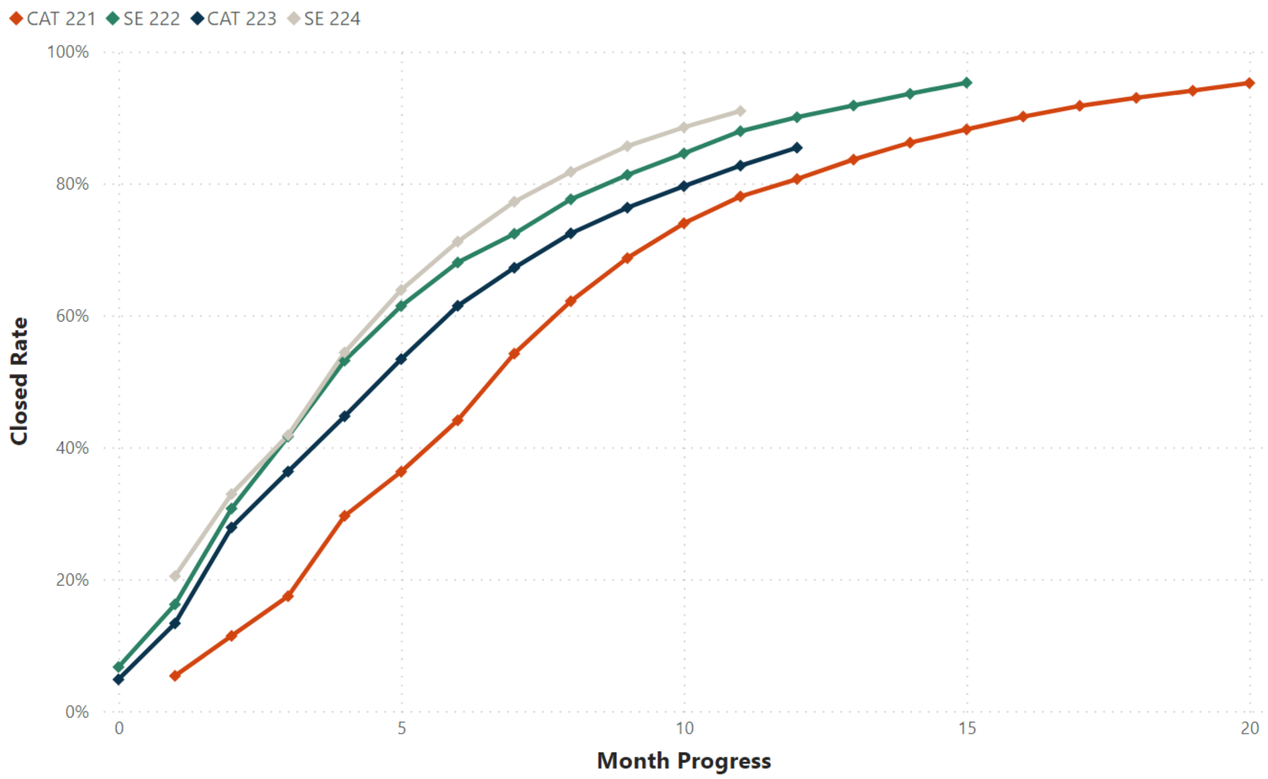


Note: ‘Pre CAT 215 (inclusive)’ includes open claims for the following events: 185, 192, 193, 194, 195, 196, 201, 202, 203, 204, 211, 212, 213, 214 and 215. No data available for December 2021.

Data collected from members by the ICA shows that the rate at which claims were closed was proportionate to the severity and size of the events. A claim is generally considered ‘closed’ when all construction work has been completed and all payments have been made (i.e., a claim could be accepted to the satisfaction of a customer, but will not be reported as closed by their insurer until the customer is back in their home and all payments to relevant contractors have been made by the insurer). A claim may also remain open whilst recoveries of costs from reinsurers or governments have not been completed.

Figure 3 shows that claims related to CAT 221 were closed at a significantly slower rate than the other three flood events, particularly in the early months following the event. In addition to the scale of the event, this was in part due to 62,000 claims relating to CAT 221 being lodged between March and July 2022. The challenges faced in responding to the scale and severity of CAT 221 led the ICA to commission an external review into the industry’s response, the findings of which are discussed below.

Figure 3 – Closed rate over time



Month	CAT 221	SE 222	CAT 223	SE 224
0		6.67%	4.78%	
1	5.32%	16.17%	13.30%	20.45%
2	11.39%	30.70%	27.84%	32.90%
3	17.40%	41.62%	36.33%	41.83%
4	29.59%	53.14%	44.70%	54.38%
5	36.29%	61.43%	53.35%	63.85%
6	44.09%	68.02%	61.44%	71.19%
7	54.20%	72.36%	67.21%	77.23%
8	62.15%	77.60%	72.43%	81.75%
9	68.69%	81.30%	76.33%	85.67%
10	73.96%	84.57%	79.60%	88.52%
11	78.04%	87.92%	82.70%	91.00%
12	80.67%	90.06%	85.42%	
13	83.63%	91.83%		
14	86.19%	93.61%		
15	88.19%	95.29%		
16	90.15%			
17	91.78%			
18	92.99%			
19	94.08%			
20	95.24%			

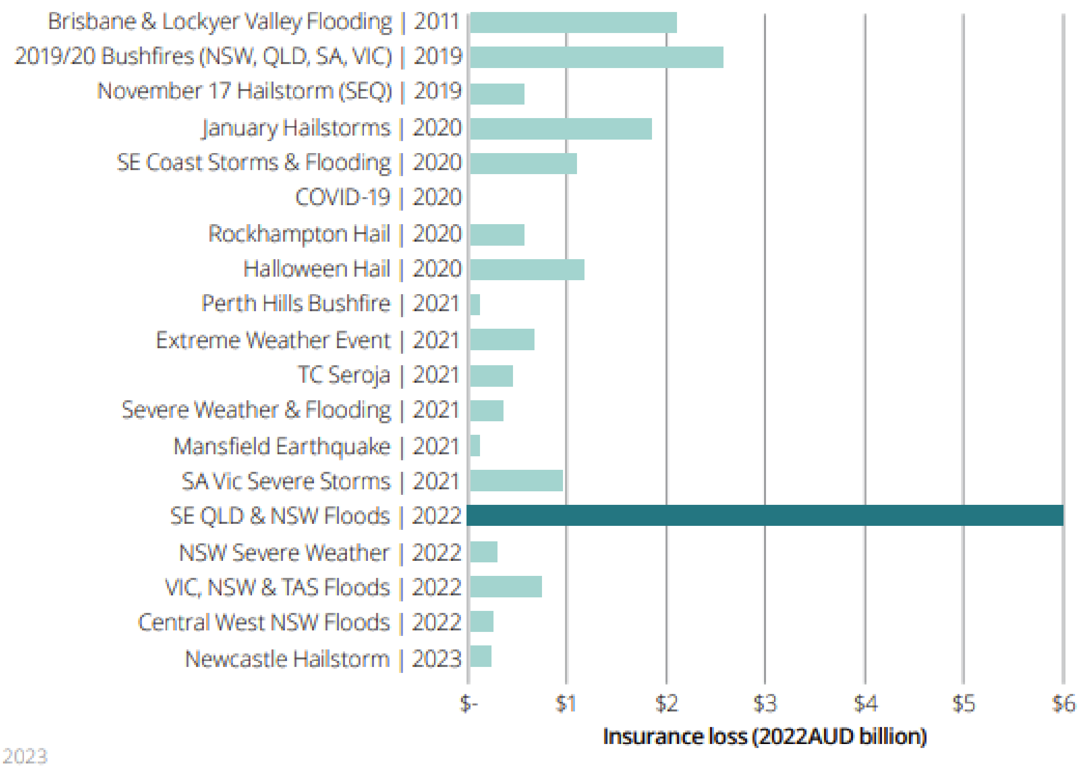
Deloitte Review of CAT 221 - *The New Benchmark for Catastrophe Preparedness in Australia*

<u>Background</u>

In April this year, the ICA commissioned an external review into the insurance industry's response to CAT 221. Deloitte was selected to conduct the review following a tender process. The review was undertaken to identify the lessons learned from the response to CAT 221 and identify both what worked well and what could be improved for future extreme weather events. The scope of the review covered the eight insurers with the most claims from the event, accounting for almost 99 per cent of home and contents, motor, and small business claims[11].

The flood events last year tested the systems the industry uses to respond to extreme weather events, none more so than CAT 221. The scale of CAT 221 (see Figure 4) - which we now know was the largest insured event in Australian history and, according to global reinsurer Swiss Re, the second largest insured event in the world in 2022 - was such that the lessons learned from this event will be relevant to all future responses to extreme weather events. The value of claims from CAT 221 exceeded the combined losses for the next three costliest catastrophes this century combined and the number of claims was six times higher than the average received for catastrophes since 2016 (when the ICA started collecting this data).

Figure 4 – Comparison of CAT 221 with recent insurance events



Source: ICA, 2023

While the other events being examined by the Inquiry were of a smaller scale than CAT 221, the findings and recommendations in the Deloitte review should also be considered applicable to these events.

---

[11] Auto & General, Allianz, Hollard, IAG, QBE, RACQ, Suncorp Group, Youi.

The review examined the industry's response and the impact of external factors such as the economic environment at the time of CAT 221 and lingering effects of Covid restrictions. The findings of the review are based on analysis of response timeframes, resources deployed, claims handling, complaints handling, communication with policyholders, engagement with stakeholders, impact of regulatory requirements, insurers' interactions with government agencies and their programs and policies, and broader external pressures including supply chain and labour constraints.

In addition to a detailed analysis of the eight insurers involved, Deloitte consulted with regulators, reinsurers, consumer representatives, MPs from affected areas, councils, and supply chain providers.

The report, *The New Benchmark for Catastrophe Preparedness in Australia,* was released on 31 October 2023 and provided to the Committee Secretariat. Key elements of the report and the industry's response are summarised below.

Overview

The report makes seven recommendations, five of which relate to insurers, one to interaction with governments and one to the Code review.

For insurers, the report recommended improvements to five areas:

- **Preparedness:** Insurers should improve their catastrophe planning to meet community expectations of operating in the Australian environment, particularly their preparedness and stress testing for extreme catastrophes like CAT 221.
- **Customer experience:** Insurers should improve the customer experience for catastrophes through better communication with policyholders and by delivering a consistent experience through claims handling and complaints.
- **Resourcing:** Insurers should redesign resourcing capability for catastrophe events, with a particular focus on workforce planning and resourcing and onboarding during catastrophes.
- **Operational response:** Insurers should assess what operational efficiencies could be delivered in catastrophes through process, technology, and infrastructure investments in the context of responding to a catastrophe.
- **Governance and transparency:** Insurers should improve their ability to capture and leverage data and insights to understand the impact of internal and external factors on performance during catastrophes.

Two further recommendations relate to improving coordination with governments and to the Code:

- **Coordination with government:** More effective coordination between government and the insurance industry is required to provide faster access to government funding, consistent approaches to clean-up and debris removal, and co-incentivise investment in resilience and adaptation measures.
- **Code review:** The Extraordinary Catastrophe definition in the General Insurance Code of Practice should be reworked as part of the upcoming independent review.

The report found that external factors made responding to CAT 221 particularly challenging, including a historically tight labour market, unprecedented building materials constraints and inflation, the price and availability of new and used cars, and rental vacancy rates. Notwithstanding these challenges, the report found that the scale of CAT 221 exposed areas of vulnerability in insurers' claims and complaint handling responses, particularly in catastrophe planning, resourcing, processes and technology, communications, and governance. Claims processes were tested at a scale never seen before and even the most comprehensive catastrophe plans were exceeded.

The review uncovered both good practices by insurers and practices that require improvement for the industry to meet community expectations when responding to future extreme weather events. Some insurers were found to be more effective than others at responding to the scale of CAT 221.

While claims closure rates varied considerably across insurers (see Figure 5), Deloitte noted that speed is not the only measure of insurer performance; other factors impacted closure timeframes, such as the number of claims[12], geographic exposure, policy definitions, and the mix of claim types (i.e. motor and contents claims are generally simpler to resolve than building claims[13]). While complaints handling processes faced similar challenges to claims handling, complaint handling timeframes were met for 94 per cent of complaints[14].

Figure 5 – Average claims closure rates for CAT 221

Note: No data was received from one insurer between October 2022 and November 2022, and no data was received from another insurer between April 2022 and May 2022 - the values during these periods were linearly interpolated to estimate the curve where values were missing. No data was received from one insurer in March 2023.

Source: ICA, 2023

Importantly, the review found improvements have already been made as a result of lessons learned. All insurers were found to have plans or already taken action to improve claims and complaints handling to better prepare for future extreme weather events. For example, all insurers have permanently increased the size of their claims and complaint teams since CAT 221, some insurers have invested in AI and advanced data analytics to improve claims and complaints processes and proactively identify vulnerable customers, and some are

[12] The two insurers with the faster closure rates had substantially fewer claims related to CAT 221 compared to the average across the eight insurers.
[13] After 12 months of development, insurers had, on average, closed 97 per cent of personal motor claims compared to 84 per cent of personal building claims.
[14] Based on data from 7 of 8 insurers.

investigating whether flood mapping technology can reduce reliance on experts such as hydrologists. However, there is more work that can be done to improve customer outcomes.

Industry response to improve future preparedness

The Insurance Council has accepted all seven recommendations in-principle and will conduct an external review on progress against the recommendations and report in the second half of 2024. The ICA will lead the work to improve coordination with government and will refer the recommendation regarding the Extraordinary Catastrophe definition to the upcoming review of the Code.

The ICA agrees with the review's conclusion that Australia has the conditions to underpin an insurance industry that is at the global forefront of responding to extreme weather events. Repeated exposure to such events, coupled with established disaster institutions and frameworks, means Australian insurers are well placed to show the world how to respond effectively and efficiently to extreme weather events.

Deloitte notes that not all recommendations will apply to all insurers to the same extent and right-sizing will be needed to reflect insurer size and risk exposure, as well as account for cost-benefit trade-offs that improvements will give in reducing claims handling costs.

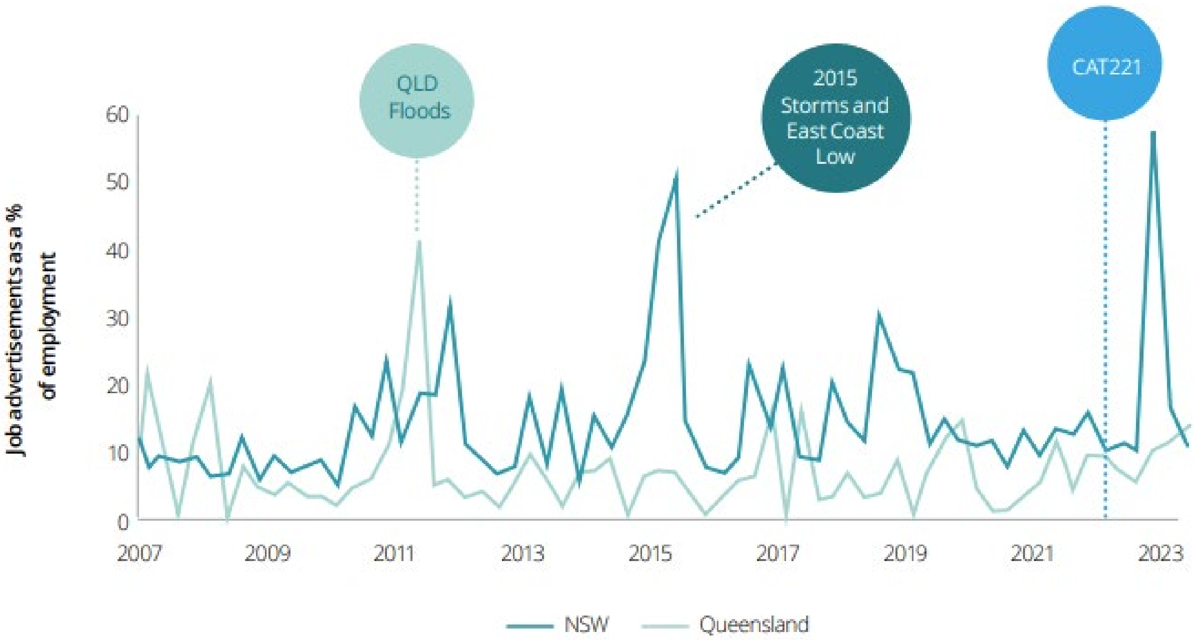
Any investments that insurers make in their operational response will also need to assess improvements in claims handling against the impact on premium affordability for Australian consumers.

The impact of the external environment

External circumstances at the time of CAT 221 made responding to the event more difficult. The lasting impacts of the Covid pandemic created a challenging economic operating environment; supply chain shortages, labour market disruptions, unprecedented demand in the construction sector and the past impacts of border closures exacerbated the challenges faced by insurers and stretched resources across the economy. While the report focussed on CAT 221, many of the factors explored below had lasting effects throughout 2022 and impacted on insurers' responses to later flood events.

The report found that in Queensland and NSW, insurance investigators and surveyors were already in short supply before CAT 221, with the situation worsening later in 2022. Insurance investigators and surveyors were among the top occupations for job advertisements as a share of employment in both states in February 2022 (Figure 6).

Figure 6 – Shortages of insurance investigators and surveyors



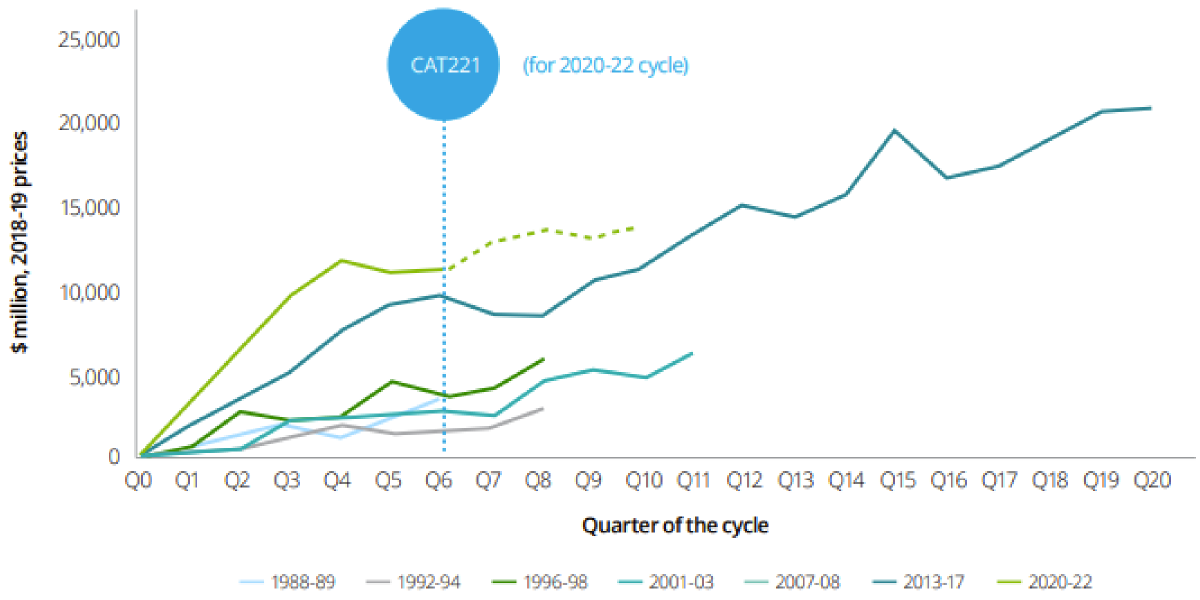
Source: Deloitte Access Economics, Jobs & Skills Australia, ABS

The market for call or contact centre workers was also constrained at the time of CAT 221. In February 2022, total vacancies ranked in the 9th percentile of all occupations, while vacancies as a share of employment was 7 per cent, placing it in the 3rd percentile of all occupations.

At the time of CAT221, the construction industry was already under pressure due to a strong demand pipeline and supply chain disruptions. Global supply chain constraints had increased delivery times and prices for construction materials, which was being exacerbated by a backlog of residential construction work partly driven by the Federal Government's Homebuilder program.

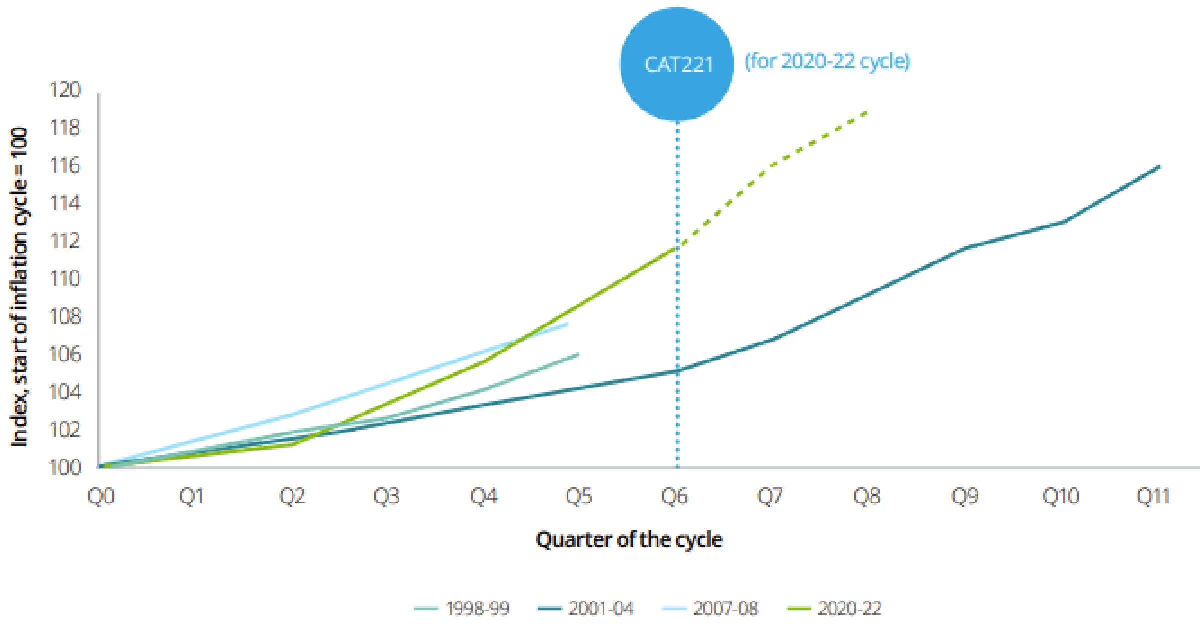
These factors meant the construction industry in Queensland and NSW was already in the midst of a historically large boom at the time of CAT221, in many ways comparable to or more significant than that seen in the mining boom (see Figures 7 & 8). The industry had experienced record fast increases in the gap between building work approved and work done in the 18 months before CAT 221, which was exacerbated by the event itself (Figure 7). This gap drove historically high construction prices that were increasing at the fastest pace on record and driven even higher by CAT 221, making 2020-22 the worst period of construction price inflation in recent Australian history (Figure 8).

Figure 7 – Gap between work approved and work done in QLD and NSW



Source: Deloitte Access Economics

Figure 8 – Construction output prices during inflationary cycles



Source: Deloitte Access Economics

These unprecedented volume and price pressures constrained insurers' ability to rebuild homes in a timely manner and also impacted policyholders that opted for a cash settlement and managed their own rebuilds or repairs. The review notes that these constraints were particularly felt in severely affected regional areas such as the Northern Rivers where builders, tradespeople and suppliers were themselves significantly impacted by the floods.

The pandemic also impacted on the markets for new and used cars and rental accommodation, constraining insurers' ability to replace vehicles and source temporary accommodation. The average wait time for new cars in Australia quadrupled between January 2020 and the time of CAT 221, reaching a high of around five months in mid-2022. This increased demand for used vehicles, leading to used vehicle inflation reaching a high of

40 per cent in 2021 and remaining at 18 per cent at the time of CAT 221. The rental market was growing increasingly tight at the time of CAT 221, particularly in Queensland where vacancy had fallen to an historic low of 0.7 per cent in Greater Brisbane.

As noted above, insurers were also adapting to several of relatively new regulatory changes in the lead up to CAT221, including changes to the Code and the CSFS obligation. While these had been foreshadowed in advance, the changes required insurers to undertake systems, processes and data infrastructure uplifts that were first tested during CAT 221

Industry response to CAT 221

The review found that there was a strong cultural commitment from senior leadership across all insurers to prioritise support towards those affected by CAT 221 and there were well-established overarching governance frameworks. Once it was safe to do so, all insurers were present in the communities affected by CAT221 and this presence was well received by policyholders.

Many insurers paid benefits that exceeded policy terms or where the policyholder had no cover under their policy, including providing emergency cash payments to customers who were unlikely to have cover and extensions in temporary accommodation beyond the stipulated periods or where accommodation costs exceeded cover.

The scale of CAT 221 was beyond the prior experience of the Australian insurance industry. While all insurers had catastrophe plans in place, CAT 221 occurred over such a widespread and heavily populated area that even the most comprehensive catastrophe response plans were exceeded. One insurer advised Deloitte that they had complete planning considering scenarios with a maximum spike of up to 3,000-4,000 claims, when in fact they received more than 10,000 claims for CAT 221.

Insurers increased their claims workforces by between 19 per cent and 87 per cent in response to CAT 221, increasing their headcount by a combined 2,200 people. Onboarding and training these staff created challenges for some insurers and, as noted above, this occurred in the context of an already severely constrained labour market for the industry (and across the economy more broadly).

The review found that most claims processes – which are tested daily through business-as-usual operations – withstood the volume of claims from CAT 221; however, the scale of the event exposed some areas of weakness, particularly where processes were manual. The scale of CAT 221 also created challenges for third-party service providers – at least two insurers advised Deloitte that their third-party claims preparers did not have the capacity to manage claims from the event and had to hand claims back to the insurer.

Communication is a key area identified by Deloitte for improvement. The review found that communication practices and outcomes during and following CAT 221 did not meet community expectations. While insurers had communications plans in place, the scale of the event and resourcing and process challenges outlined above mean that the industry was unable to scale communications processes to meet demand, especially in the early stages of response when prioritising other aspects of the claims process. Many insurers did not meet the timeframes set out in Code, including the requirement to provide an update on the progress of a claim every 20 business days and to respond to routine requests for information within 10 business days.

Feedback provided to Deloitte by regulators, policyholders and consumer groups indicated that communications issues were exacerbated by confusion amongst policyholders regarding how to interpret their policy and what to expect in the claims process (e.g., what evidence is required to support a claim and requirements for hydrologists to assess flood or stormwater runoff).

Insurance affordability

The ICA is currently preparing several policy papers to examine the insurance 'protection gap' in Australia and the accessibility of insurance across various personal and commercial lines. These papers will be released in coming months and will be provided to the Committee as they are released to assist with the Inquiry.

Many of the policy recommendations for governments the ICA has previously advocated for are aimed at reducing risk in Australia to put downward pressure on premiums. Details of these policy recommendations are provided further below.

There are three main factors driving recent premium increases in Australia: the impact of extreme weather events such as the floods last year, inflation pushing up rebuilding and repair costs, and the rising global cost of reinsurance.

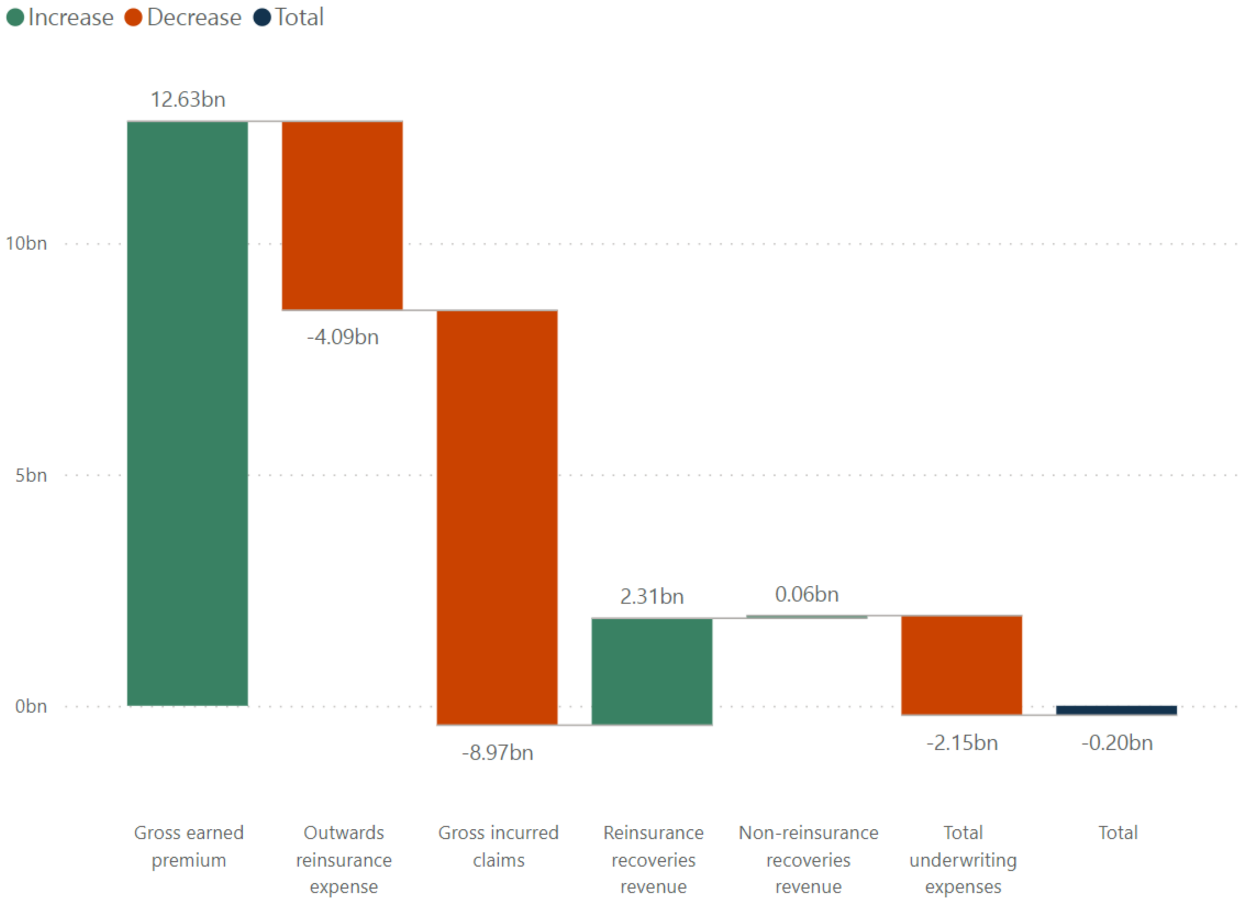
- **Extreme weather:** insurers have paid out more than $16.8 billion in natural disaster claims from 13 declared insurance catastrophes and five significant events since the 2019-20 Black Summer bushfires, including more than $7.2 billion in 2022.
    - Higher insurance losses globally have been driven by a small number of severe events, the severity of which have increased. Rather than the destructive force of these disasters themselves, the dominant drivers of higher catastrophe losses are urban development and growing asset values in high-risk areas, exacerbated by population growth (further detail in *Policy Recommendations*).
- **Inflation:** higher inflation, particularly in the construction sector, increases the cost of repairing and rebuilding homes and is reflected in higher premiums. CoreLogic's Cordell Construction Cost Index showed that building costs rose a record 11.9 per cent in 2022, far outstripping CPI. While construction cost inflation has since significantly reduced, deflation is unlikely to occur so costs will remain elevated.
- **Reinsurance:** reinsurer Swiss Re found that global catastrophe reinsurance rates rose to 20-year highs in the January renewals, driven by uncertainty around claims trends and the impact of inflation[15]. Australian insurers have faced recent increases in reinsurance costs of 20-30 per cent. Reinsurer Gallagher Re recently reported that reinsurance capacity has continued to tighten so far in 2023[16].
    - Reinsurance is purchased in a global market and Australia and Australian insurers are competing with other countries for reinsurers' capital. If Australia is viewed as a less attractive destination for capital or the Australian insurance market is viewed as more volatile or less profitable than historical norms, reinsurance costs will rise.

The impact of rising costs, particularly the impact of extreme weather, meant Australian insurers experienced a net loss on Home insurance policies in the 2022-23 financial year (Figure 9).

---

[15] *A Perfect Storm: Natural catastrophes and inflation in 2022, 22 March 2023*
[16] *Asia Pacific Market Watch, 30 October 2023*

Figure 9 – Financial performance of home insurance in 2022-23 ($bn)



As noted by Deloitte, insurers will also need to consider how the costs of future investments in operational response processes and technology improvements will impact on premium affordability.

Policy recommendations

Overview

Insurance provides financial protection against floods, but it is not a solution to flood risk. Addressing the risk of floods (and other extreme weather events) in Australia should be a priority for all governments, to minimise the impact of catastrophes on life and property and help address the protection gap and improve insurance affordability.

The ICA has long advocated for policy solutions to reduce risk in Australia, including improved land use planning, strengthened building codes and standards, and investment in community resilience infrastructure and household resilience.

Action in these areas would both reduce the risk to individuals and communities (and in turn pressure on the insurance system) and reduce pressure on affordability over the longer term. These policy concepts have been well understood but have been kicked down the road for too long. Some will take years to fully implement, and further delays will only continue to exacerbate the impacts of climate change and higher migration.

In addition to policies to reduce extreme weather risk, the ICA is also calling on state and territory governments to remove unfair taxes on insurance that increase premiums. As recently noted in a report prepared for the Actuaries Institute, taxation is the second biggest contributor to home insurance premium prices after flood risk. If governments are serious about improving insurance affordability, this has to change.

A competitive insurance market is essential to provide ongoing protection for Australians against extreme weather risk. The unintended consequences that regulatory interventions can have on the insurance system are evident in California, where multiple insurers have recently ceased writing new policies in large part due to the impact of government regulations that inhibit the operation of the insurance market by imposing price caps that do not allow insurers to collect enough in premiums to cover claims.

A recent paper from the International Association of Insurance Supervisors, an organisation of insurance supervisors and regulators from more than 200 jurisdictions, explores some of these policies and other proposals to reduce the insurance protection gap, including the benefits of risk mitigation measures that reduce exposure to extreme weather events and the unintended consequences of regulatory interventions[17].

Land use planning

Reform of land use practices across Australia is critical to reduce extreme weather risk. Land use planning arrangements do not adequately account for current or future fire, flood or cyclone risk when determining where new homes can be built, unnecessarily worsening the impact of these events. As put best by the Royal Commission into Natural Disaster Arrangements: "*Natural hazards on their own are not disasters – they are merely earth systems in operation. Disaster occurs when natural hazards intersect with people and things of value, and when impacts of hazards exceed our ability to avoid, cope or recover from them.*"

The impact of historical land use planning decisions and urbanisation is having significant consequences today – areas that should not have been developed or should have been developed with appropriate risk mitigation infrastructure are often those most affected by floods, leading to increased harm and catastrophe losses, which puts upward pressure on premiums. A recent analysis published in leading science journal *Nature* using data since 1985 found that this is a challenge globally, finding that human settlement in flood zones has significantly outpaced growth in non-exposed areas in many regions.[18]

Over the long term, the majority of insurance losses globally have been driven by a small number of severe events, the severity of which have increased. Rather than the destructive force of these disasters themselves, the dominant drivers of higher catastrophe losses are urban development and growing asset values in high-risk areas, exacerbated by population growth. The share of Australia's population living in urbanised areas is among the highest in the world and, according to Swiss Re, over the last 20 years the increase in soil sealing in Australia's five largest cities has been the main contributor to a 7 per cent increase in annual expected losses from floods.

The impact of poor land use planning in Australia has been an issue for centuries. As early as 1817, Governor Lachlan Macquarie decried "*the inevitable consequences of [settlers'] wilful and wayward habit of placing their Residences and Stock Yards within the reach of floods whilst it must still be had in Remembrance that many of the Deplorable Losses which have been sustained within the last few Years at least, might have been in great measure averted, had the settlers paid due consideration to their own Interest*".[19]

---

[17] IAIS November 2023: *A call to action, the role of insurance supervisors in addressing natural catastrophe protection gaps*.

[18] Global evidence of rapid urban growth in flood zones since 1985 | Nature

[19] New South Wales State Archives.

More recently, in December 2022 National Cabinet announced that planning ministers would develop a national standard for considering disaster and climate risk, stating that "the days of developing on floodplains need to end". The ICA strongly supports this objective, however moving from general agreement to specific policies and clear direction will require strong leadership and significant effort.

As the population increases, the pressure for new homes to be built will grow. Without reform the lowest cost option will often be for these homes to be built in higher risk areas, putting more people in harm's way, increasing the cost of future disasters, and putting upward pressure on premiums for all policyholders.

Governments must adopt a risk-based approach that stops development in areas prone to high flood risk, requires stronger building codes and standards and/or adequate resilience infrastructure built in areas of higher risk, and prioritises areas of low risk for development.

Governments should also work to reduce the impact of past planning decisions by offering buybacks and house raising programs in high-risk areas. Recent buyback and raising programs in Queensland and New South Wales have been significantly oversubscribed following the 2022 flood events. All governments should establish permanent programs for buybacks and home-raising to move people out of harm's way *before* disasters occur, reducing recovery costs for governments and affected communities.

Building standards

Currently, minimum building codes in Australia are designed to preserve life in a catastrophic event, but not with the goal of preserving the property itself. As a result, homes are not built to withstand the extreme weather events of today, let alone the future. Importantly, when it comes to floods, building standards do not consider resilience at all[20].

A recent Centre for International Economics report released by the ICA found that strengthening the National Construction Code to require that new homes are made more resilient to extreme weather could save an estimated $4 billion a year in average building costs - $2 billion for cyclones, $1.475 billion for floods, and $486 million for bushfires.

It is important to note that improvements to building standards alone cannot eliminate the risk of extreme weather, especially the impact of floods. For this reason, improvements to building standards must be considered in parallel with land use planning reform.

Resilience infrastructure

The Productivity Commission has estimated that 97 per cent of all disaster funding in Australia is spent after an event, with just three per cent spent on mitigation measures ahead of a disaster. 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, delivering a return on investment of almost 10 times nationally.

The ICA welcomed the establishment of the Disaster Ready Fund from 1 July 2023, with up to $200 million to be invested annually in disaster mitigation for five years, matched by the states and territories. We have called on the Commonwealth to make this a permanent, rolling ten-year program with indexed funding so investment does not fall in real terms. A ten-year, indexed program would cost the budget around $2.5 billion over the medium term, $1 billion less than the cost of disaster recovery payments and allowances in 2022 alone.

[20] Climate Change Impact Series: Flooding and Future Risks (insurancecouncil.com.au)

A rolling ten-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 and puts downward pressure on premiums. Consideration could also be given to removing the three-year project time limit to allow for more comprehensive plans and larger projects.

There is also a role for governments to fund programs that support mitigation and resilience at the household level. Individual-level mitigation programs could range from subsidising improvements such as cyclone-proofing and house-raising, to buy-backs in high-risk areas. The ICA provides guidance on resilient construction for consumers online.

State insurance taxes

State taxes on insurance such as stamp duty and other levies are unfair and distortionary. They directly increase the cost of insurance, reducing the incentive to insure (entirely or fully). Multiple government-led reviews, including the 2008 *Henry Tax Review*, 2020 ACCC *Northern Australia Insurance Inquiry* and 2020 *New South Wales Review of Federal Financial Relations*, have recommended abolishing taxes on insurance.

Depending on the state or territory, government taxes and charges can add 20 to 40 percent to premiums. Higher premiums can lead consumers to underinsure or drop insurance altogether.

All jurisdictions except the ACT impose stamp duty on insurance, ranging from 9-11 per cent of premiums.

Two states – New South Wales and Tasmania – also still charge insurance customers to fund emergency services, adding another layer of tax that increases premiums. All other jurisdictions have abolished these levies. Both the Tasmanian and New South Wales Governments recently announced their intention to abolish these levies and find a fairer way to fund emergency services.

Insurance taxes are on top of the GST, making insurance once of the few products that is double-taxed (or tripled taxed in the case of the NSW and Tasmania).

Appendix A – Detailed event claims data

Event	Type	Class	Claims Lodged	Claims Incurred Cost	Average Claim Cost	Closed Rate
CAT221	**Total**		**243,057**	**$6,093,060,248**	**$25,068**	**95.24%**
	Personal	**Total**	**218,893**	**$4,470,217,206**	**$20,422**	**95.84%**
		Building	133,180	$3,441,623,819	$25,842	95.47%
		Contents	60,619	$712,146,513	$11,748	95.31%
		Personal Motor	24,237	$304,689,733	$12,571	99.23%
		Personal Other	857	$11,757,142	$13,719	95.33%
	Commercial	**Total**	**24,164**	**$1,622,843,042**	**$67,160**	**89.75%**
		SME Building	4,718	$364,953,125	$77,353	89.44%
		SME Property	5,148	$288,808,782	$56,101	95.38%
		SME BI[21]	820	$18,095,832	$22,068	92.93%
		Corp Building	1,078	$47,803,331	$44,344	96.38%
		Corp Property	6,300	$354,905,748	$56,334	86.27%
		Corp BI	492	$126,279,040	$256,665	85.37%
		Corp Motor	4,582	$174,564,162	$38,098	90.03%
		Crop	22	$4,446,303	$202,105	22.73%
		Commercial Other	1,004	$242,986,720	$242,019	76.79%
SE222	**Total**		**23,234**	**$283,830,416**	**$12,216**	**95.29%**
	Personal	**Total**	**21,979**	**$250,661,009**	**$11,405**	**95.46%**
		Building	14,645	$182,222,270	$12,443	95.16%
		Contents	5,137	$42,877,381	$8,347	94.88%
		Personal Motor	2,133	$24,945,560	$11,695	98.87%
		Personal Other	64	$615,798	$9,622	98.44%
	Commercial	**Total**	**1,255**	**$33,169,406**	**$26,430**	**92.27%**
		SME Building	264	$2,927,180	$11,088	93.18%
		SME Property	301	$10,204,053	$33,901	96.35%
		SME BI	41	$443,773	$10,824	92.68%
		Corp Building	48	$554,645	$11,555	93.75%
		Corp Property	379	$7,435,024	$19,617	90.77%
		Corp BI	11	$2,074,365	$188,579	81.82%
		Corp Motor	155	$4,444,925	$28,677	92.90%
		Crop	1	$5,954	$5,954	100.00%
		Commercial Other	55	$5,079,488	$92,354	74.55%

[21] BI: Business interruption insurance.

CAT223	**Total**		**22,367**	**$768,034,467**	**$34,338**	**85.42%**
	Personal	**Total**	**19,505**	**$639,454,205**	**$32,784**	**85.46%**
		Building	11,263	$487,502,139	$43,284	84.25%
		Contents	5,693	$119,248,186	$20,946	83.40%
		Personal Motor	2,461	$31,812,176	$12,927	96.10%
		Personal Other	88	$891,703	$10,133	75.00%
	Commercial	**Total**	**2,862**	**$128,580,263**	**$44,927**	**85.22%**
		SME Building	697	$31,763,138	$45,571	78.05%
		SME Property	521	$34,074,042	$65,401	87.33%
		SME BI	51	$467,441	$9,166	92.16%
		Corp Building	104	$4,364,424	$41,966	92.31%
		Corp Property	728	$34,553,553	$47,464	87.23%
		Corp BI	46	$2,946,286	$64,050	93.48%
		Corp Motor	603	$11,031,211	$18,294	90.55%
		Crop	44	$4,079,863	$92,724	70.45%
		Commercial Other	68	$5,300,305	$77,946	61.76%
SE224	**Total**		**14,749**	**$245,826,067**	**$16,667**	**91.00%**
	Personal	**Total**	**12,299**	**$178,637,442**	**$14,525**	**91.45%**
		Building	7,088	$136,646,315	$19,279	89.74%
		Contents	4,352	$31,778,694	$7,302	93.41%
		Personal Motor	831	$10,035,867	$12,077	95.79%
		Personal Other	28	$176,566	$6,306	92.86%
	Commercial	**Total**	**2,450**	**$67,188,625**	**$27,424**	**88.69%**
		SME Building	357	$8,380,163	$23,474	89.08%
		SME Property	292	$5,959,180	$20,408	83.22%
		SME BI	33	$538,620	$16,322	75.76%
		Corp Building	155	$2,639,415	$17,028	94.84%
		Corp Property	931	$23,085,116	$24,796	87.33%
		Corp BI	48	$1,456,093	$30,335	83.33%
		Corp Motor	181	$2,386,228	$13,184	90.61%
		Crop	379	$19,623,089	$51,776	97.89%
		Commercial Other	74	$3,120,722	$42,172	70.27%
Total			**303,407**	**$7,390,751,198**	**$24,359**	**94.31%**