Insurance Council of Australia

28 April 2024

Ryan Batchelor
Chair
Victorian Environment and Planning Committee

Dear Mr Batchelor

The Insurance Council of Australia (**Insurance Council**) thanks the Legislative Council Environment and Planning Committee for an opportunity to provide a submission to its Inquiry into Climate Resilience.

The Insurance Council notes a key objective of the inquiry is to analyse the risks facing Victoria's built environment from climate change, and to better understand the impact these risks will have on Victorian residents.

The Insurance Council is pleased to provide this submission to assist the Victorian Government better prepare for and mitigate the impacts of climate change on the State's built environment and infrastructure. We invite the Committee to consider this submission in parallel with our submission to your inquiry into the 2022 Flood Event in Victoria[1].

About Us

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 premiums of $64.5 billion per annum and on average pays out $147 million in claims each working day, totalling $36.5 billion per year[2].

Insurance Council members provide insurance products ranging from those purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

Summary of Recommendations

The Insurance Council's submission focuses on four key areas to improve the resilience of the built environment in the face of a changing climate. These are:

- Land use planning reform.
- Investment in resilience infrastructure.
- Resilience in the National Construction Code.
- Improved data.

[1] https://www.parliament.vic.gov.au/494919/contentassets/c7be1bc18499435eb0e3620ab8f59f2e/submission-documents/693.-insurance-council-of-australia_redacted.pdf
[2] APRA Statistics

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The need for action

The extreme weather events experienced by Victoria in recent years underline the importance of improving our resilience in the face of a changing climate.

Insurance prices risk, and as climate change continues to drive worsening extreme weather events, the challenges associated with insurance affordability and availability in vulnerable areas will continue to grow.

The most recent, and severe of these extreme weather events was the major flood event in in late 2022. Known within the insurance industry as Insurance Catastrophe 223 (CAT223), this extreme weather resulted in significant damage to regional communities across three states.

As of February 2024, the floods have incurred $830 million in damage to property insured by ICA members, spread across 22,800 claims. Of this total, nearly $700m (84%) was incurred in Victoria across over 15,000 claims, with an average cost per claim of over $40k. Since the start of 2022, almost 90% of claims in Victoria during declared insurance events have been due to flooding, with hail and storm damage making up the remainder.

As the climate continues to change, Australia can expect to experience more extreme weather events like these floods, as well as more severe bushfires, hotter and longer heatwaves, rising sea levels exacerbating coastal hazards and more intense cyclones.

Creating a more resilient Victoria in the face of a changing climate is key to addressing growing levels of risk and to closing the insurance protection gap, which is the extent to which potential economic losses are not covered by private insurance.

Modelling by the Actuaries Institute[3] estimates that more than 1 million Australian households face home insurance affordability stress – and that this is most pronounced in areas with high cyclone and flood risk.

Unfortunately, there has been an increase in the number of people who are not insured or are underinsured – particularly in those areas where the threat of high natural peril risk is driving the biggest increases in premiums.

Too many homes are in the direct line of flood, fire, or at risk from the sea, because at the time of planning and approval, not enough account was given to the extreme weather risk. Many of these properties are now cheaper to buy or rent because of this risk, and some are home to those who are least able to afford adequate insurance, compounding the impact of extreme weather events.

Changing the risk profile of these communities exposed to extreme weather requires action by the State Government to make homes, businesses and communities more resilient to extreme weather, by shifting what we build and where we build it.

Land Use Planning Reform

The Insurance Council encourages the Victorian Government to adopt a risk-based approach to land use planning to protect lives and properties in the context of a changing climate.

The threshold of acceptable risk needs to be central to all planning decisions, and the consequence of extreme weather, not just the probability, needs to be taken into consideration. Comprehensive reviews of land use planning arrangements should be undertaken which consider both the likelihood and consequence of extreme weather events, including flooding.

As outlined in the table below, the Victorian Government should prioritise areas of negligible-risk and low-risk to extreme weather for new dwellings, noting the probability of a hazard occurring and the

[3] https://actuaries.asn.au/docs/thought-leadership-reports/home-insurance-affordability-update.pdf.pdf?sfvrsn=7737bcf4_4

potential impact of that hazard on property and life as part of the development of regional plans. Housing development in areas prone to extreme weather events, including high flood risk, should not be permitted.

Once the areas of extreme, high and low flood risk have been categorised, the considerations outlined in the table below should be applied as development controls in land planning overlays. This should be supported by enabling legislation or policy to require planning authorities to set three graduated levels of flood planning controls relevant to the level of risk.

Areas of extreme flood risk	Areas of high flood risk	Areas of low flood risk
Housing not planned to be built	Housing can only be built if adequate resilience infrastructure is programmed and funded and/or buildings are constructed to stronger standards that consider current and future climate projections. Further work to be undertaken to consider where and how much housing can occur within LGA.	Housing can be built without additional mitigation measures. Further work to be undertaken to consider where and how much housing can occur within LGA.

The need for action in this area is reinforced by Australia's migration program which has been set at the pre-COVID planning level of 190,000.[4] Ensuring these people have somewhere safe and affordable to live has never been more important. Similarly, National Cabinet's commitment to build 1.2 million new homes over five years from 2024 should be undertaken within a planning framework that ensures these dwellings are not situated in high-risk areas.

A stronger focus on adopting a risk-based approach to land use planning will also help to ensure housing targets provided to local government are more feasible and take on less risk. Before housing targets are set for local governments, the capacity to accommodate new dwellings in light of high-risk extreme weather zones should be understood and followed.

Planning at a local level for future housing should also be based on implementing a 'catchment based' approach to future developments, rather than developments based on Local Government Area (LGA) boundaries. Floods do not respect LGA boundaries and hazards are usually managed over multiple council areas, with actions in one Council area potentially impacting another. A catchment-based approach to land use planning and hazard management where developments are considered in terms of how they sit within a particular water catchment boundary/s, should be adopted to address this.

Ensuring planning controls adopt a risk-based approach and are undertaken according to water catchment boundaries are critical given the considerable number of properties in Victoria that are exposed to flood risk.

[4] https://immi.homeaffairs.gov.au/what-we-do/migration-program-planning-levels#:~:text=%E2%80%8B%E2%80%8B%E2%80%8B%E2%80%8B%E2%80%8B%E2%80%8B2023%E2%80%9324%20permanent%20Migration%20Program&text=The%20Government%20has%20designed%20the,find%20or%20develop%20in%20Australia.

The Insurance Industry uses the National Flood Insurance Database (NFID) and other commercial data sources to determine flood risk, and this database shows Australia has around 15 million properties around Australia.

Of these 15 million properties, approximately 230,000 of them have a 5 per cent flood annual exceedance probability (AEP). This is commonly known as "a 1-in-20 year" flood risk. Around 55,000 of these properties are located in Victoria.

This number of properties at significant risk in Victoria underscores the importance of progressing work being undertaken to develop a national framework and guidance on nationally agreed principles for natural disaster and climate risk considerations in land use planning decisions.

This work, which is being led by the NSW Government, is an important part of jurisdictions' response to National Cabinet's declaration in December 2022 that "the days of developing on flood plains needs to end." The Insurance Council strongly supports the decision of National Cabinet and encourages Victoria to follow through on this commitment following its completion by the NSW Government.

Investment in Resilience Infrastructure

The Insurance Council also encourages ongoing investment in resilience infrastructure to improve the resilience of existing homes at risk of impact from worsening extreme weather.

At a national level, the Insurance Council supports the Federal Government extending the Disaster Ready Fund (DRF) to a rolling ten-year program, as already occurs for land transport and defence funding. In addition, there should be a greater weighting on DRF Stream One (infrastructure) to ensure priority is given to high quality hard infrastructure projects that directly reduce the risk to Australian communities.

Investment in resilience infrastructure needs to occur at the household level, such as buy-back schemes and home retrofitting, as well as the community level, including floodways and levees.

Home buyback schemes are important tools for governments to reduce risk, particularly in areas which pose the greatest risk of life, such as flood plains. Greater government funding is required for pre-emptive buybacks, underpinned by long-term thinking to identify where the most at-risk communities are, and how they can best be moved out of harm's way.

The Victorian Government should consider examining implementing a program similar to those established in Queensland and NSW following the floods of 2020. In those jurisdictions, the Resilient Homes Fund / Program were established to address the unacceptable levels of flood risk in the communities affected.

Funding is being deployed to buy back homes within the most extreme exposure zones and raising / retrofitting homes in lower (but still unacceptable) exposure areas. ICA urges the Victorian Government to considering delivering similar programs to reduce the impacts of legacy exposure to protect communities and their property. More broadly, as the Victorian Government considers its applications for grants under the DRF, it should prioritise programs focused on hazard and exposure reduction.

The economic and social benefits of a greater focus on resilience infrastructure investment is demonstrated by economic analysis undertaken by Finity[5] for the Insurance Council. This independent study found implementing various measures, such as constructing flood levees and raising utilities above floodlines would not only make our at-risk communities and homes more resilient to extreme weather events, it would also save governments and households at least $19 billion to 2050.

[5] https://insurancecouncil.com.au/wp-content/uploads/2022/02/R_ICA_Resilience_Final_220218.pdf

Insurance Council of Australia

Funding for resilience infrastructure projects should be prioritised towards initiatives that will deliver significant investments on return. To support this, the Insurance Council encourages all governments, including the Victorian Government, to work with insurers through the Hazards Insurance Partnership (HIP) which is an initiative funded by the Commonwealth to better target mitigation investment to help improve insurance affordability over time. This work should involve collaboration to better understand the risks of disasters in different areas of Australia and to identify the mitigation projects that would deliver the greatest return on investment for the community, and in so doing, help put downward pressure on premiums.

Resilience in the National Construction Code

Strengthening our building codes and standards is a key policy lever that needs to work alongside improved land use planning and investment in resilience infrastructure to mitigate the risks posed by climate change. More frequent and severe extreme weather events mean we must design and construct stronger new homes that are both more resilient and durable.

Fundamental to achieving this is embedding the principle of resilience in the National Construction Code (NCC), along with initiatives to lift building practitioner skills and strengthen supervision of building and construction.

The NCC is developed by the Australian Building Codes Board (ABCB) with consideration of issues of building design, construction, performance and liveability that are the minimum necessary to achieve health and safety, amenity and accessibility, and sustainability. It is of significant concern that the NCC is not required to consider the resilience of buildings in the context of a changing climate.

ICA understands that the next iteration of the National Construction Code – NCC 2025 – does not include resilience as key principle for future developments. This is disappointing, given the long-term costs associated with extreme weather events on the built environment.

A report from the Insurance Council undertaken by the Centre International Economics[6] has found strengthening the NCC could save an estimated $4 billion a year. The ICA commissioned the analysis from the Centre for International Economics (CIE) and the report outlines that extreme weather costs to homeowners will double by 2050, as events become more severe or more frequent because of climate change. It found strengthening the NCC to require that new homes are made more resilient to extreme weather could reduce average annual building costs by an estimated $2 billion per year for cyclones, $1.475 billion per year for floods, and $486 million per year for bushfires. It also makes clear that reforming state and territory planning rules will be essential to preventing new homes being built in high-risk areas.

The Victorian Government, via its representation at the Building Ministers' Meeting and on the ABCB, should continue to support amendments to the NCC and relevant Australian Standards that prioritise building resilience and considers current and future climate projections.

Improve Data

The development of a robust, national hazard database that streamlines existing national, state and territory datasets and that is accessible to all levels of government, industry and the Australian public can play a critical role in improving and standardising our understanding of climate risk and how we prepare for it.

The Victorian Government should work with other jurisdictions and the Commonwealth via the Hazard Insurance Partnership (HIP) to update, standardise and make publicly available climate hazard data,

6 https://www.thecie.com.au/publications-archive/resilience-durability-and-the-national-construction-code

considering long-term time horizons and prioritising the high impact perils of flood, bushfire, cyclone and coastal erosion. This data should consider all possible perils to help establish a national public baseline that can better inform land use planning, building codes and standards and understanding of current and future risk.

The Insurance Council also encourages the Victorian Government to draw on robust, streamlined national hazard data developed by the Federal Government, via the HIP, to help inform and prioritise suitable resilience projects in the state.

Conclusion

Changing the risk profile of communities exposed to extreme weather in Victoria requires action to make homes, businesses and communities more resilient to extreme weather, by shifting what we build and where we build it. In this regard, the Insurance Council thanks the Committee for its continued interest in this matter and welcomes the opportunity to speak to it further should that be of assistance. Please contact Duncan Sheppard, Senior Advisor, Resilience at dsheppard@insurancecouncil.com.au for further information.

Regards

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