Insurance Council
of Australia

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Australian Sustainable Finance Institute (ASFI
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Via email: info@asfi.org.au

Australian Sustainable Finance Taxonomy V0.1

The Insurance Council of Australia (**Insurance Council**) thanks the Australian Sustainable Finance Institute (ASFI) for the opportunity to provide input into the Australian Sustainable Finance Taxonomy. We appreciate the collaborative approach the Federal Government has taken to welcome submissions from interested stakeholders.

The Insurance Council of Australia 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 46,000 people[1], generates gross written premium of $66 billion per annum, on average pays out $159 million in claims each working day ($39.4 billion paid out per year).[2]

The Insurance Council and its members are supportive of an Australian Sustainable Finance Taxonomy

The Insurance Council and its members welcome Federal Government funding to develop Australia's sustainable finance taxonomy and support the development of a taxonomy aligned with the sustainable taxonomies of our key trading partners to enable cross-border flows of sustainable finance. A taxonomy is needed to accelerate and scale up the flow of capital into investments that support Australia's transition to net zero.

The Australian sustainable taxonomy can support insurers to align their underwriting and investment decisions with net zero (and over time, broader sustainability) outcomes. For example, the taxonomy can assist insurers to identify and select investments that meet the taxonomy criteria; and to set stricter underwriting criteria for policyholders that do not. Using the taxonomy will also help provide a consistent framework for reporting sustainability performance across underwriting and investment portfolios, making disclosures more transparent and comparable across the industry.

Many financial markets are moving towards establishing taxonomies for sustainable finance, or have already done so, including markets in the EU, Canada, China and New Zealand. Key insights from international experience include:

- A key priority for an Australian sustainable taxonomy should be to align and harmonise with key international sustainable finance taxonomies, while also reflecting the unique characteristics of the Australian market. It will be important to maximise consistency between the Australian taxonomy and that of our key trading partners to enable cross-border flows of sustainable finance for companies and investors operating in multiple jurisdictions.

[1] General Insurance in Australia - Market Size, Industry Analysis, Trends and Forecasts (2024-2029), https://www.ibisworld.com/au/industry/general-insurance/526/
[2] APRA data, APRA releases general insurance statistics for June 2023 | APRA, June 2023

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- Australia's taxonomy should be reviewed regularly as the sustainable finance taxonomies of our key trading partners mature, to support ongoing consistency and interoperability across different markets and jurisdictions.

The EU sustainable finance taxonomy was developed based on EU's regulatory frameworks. Likewise, an Australian sustainable taxonomy should align with Australian legal and regulatory frameworks.

The inclusion of "climate change adaptation and resilience" as a headline ambition is critical

The Insurance Council and its members welcome the inclusion of "climate change adaptation and resilience" as a proposed headline ambition for the Australian sustainable finance taxonomy.

Since the Black Summer Bushfires of 2019-20 insurers have paid out $16 billion in claims from 13 declared insurance catastrophes or significant events, events that are still having an impact on the price of premiums for every Australian insurance customer.[3] In 2022 alone, there were more than 302,000 disaster-related claims lodged from four declared insurance events across the country, costing $7.26 billion in insured losses.[4]

According to 2022 research undertaken for the ICA by the McKell Institute, direct costs from extreme weather events are estimated to grow by 5.13 per cent each year (before inflation) and reach $35.24 billion (in 2022 dollars) by 2050.

The rising costs of worsening extreme weather underscores the pressing need for immediate action to improve the resilience and adaptation of Australian communities, homes, and infrastructure. 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.

Screening criteria for the construction and the built environment could be extended to include resilience and adaptation

The Insurance Council and its members support the inclusion of decarbonisation activities in the built environment in the Australian sustainable finance taxonomy. However, the scope of decarbonisation activities in the built environment could be extended to also include adaptation activities focused on improving the resilience of Australian homes to climate change.

For example, it is proposed the Australian sustainable finance taxonomy considers the energy efficiency potential of new buildings in the screening criteria for new construction activities – this could be extended to also consider the resilience potential of new buildings. This could be achieved by:

- The Insurance Council supports the principle of resilience being embedded in the National Construction Code (NCC) to ensure future buildings are better able to withstand bushfires, cyclones and floods. If the principle of resilience is embedded into the NCC in future, the Australian sustainable taxonomy could align with the NCC resilience requirements.

- The Insurance Council supports the development of voluntary resilience rating tools and mandatory disclosure of resilience ratings for homes and commercial buildings at the point of sale or lease. In addition to requiring minimum energy efficiency ratings, the new construction screening criteria could require a minimum resilience rating.

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[3] Insurance Council of Australia, CAT Data, 2023
[4] Insurance Council of Australia, Insurance Catastrophe Resilience Report 2022–23, [20897_ICA_Cat-Report_Print-2023_RGB_Final_Spreads.pdf (insurancecouncil.com.au)](), 2023

The Insurance Council and its members, along with the Resilient Building Council and Investor Group on Climate Change (IGCC) has previously recommended property sector mitigation and adaptation as a key priority for taxonomy coverage. Property sector mitigation and adaptation is proposed due to the readiness of the property sector to match capital with existing solutions and the interconnection between emissions reduction and disaster resilience for buildings and construction. The approach would expand the eligible economic activities for financial institutions to include adaptation; and enable adaptation to be included in Green Bonds/Residential Backed Mortgage Securities. The larger the pool of eligible investments, the larger the funding savings to financial institutions, which have been demonstrated to lead to household incentives such as lower interest green mortgages and loans.

Data challenges may exist in the early years of the taxonomy

Applying the Australian sustainable taxonomy in practice will require a significant amount of data, which will not necessarily be available to the insurance industry, especially during the first years of implementation. Gathering all the required information will need a significant effort for the industry.

For example, insurers tend to categorise underwriting by product line and geography and group their portfolios across SMEs, corporates, and global companies. Adding to this complexity, these insurance customers receive various different products, ranging from directors' insurance to public liability, and business interruption insurance. As insurers typically do not track by customer, this makes it challenging for them to identify customer exposure, classify client income by economic activity type and analyse portfolios by industry code or customer.

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Ange Nichols, Senior Advisor, Climate Change. ange.nichols@insurancecouncil.com.au

Yours sincerely

Andrew Hall
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