Insurance Council of Australia

13 May 2024

Climate Change Authority
51 Allara Street,
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Submitted electronically.

Climate Change Authority 2024 Issues Paper: Targets, Pathways and Progress

The Insurance Council of Australia (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 $60.2 billion per annum and on average manage $159 million in claims every working day.

The Insurance Council of Australia (Insurance Council) thanks the Climate Change Authority for the opportunity to provide a submission in response to the Climate Change Authority 2024 Issues Paper: Targets, Pathways and Progress.

The Australian Federal Government should set a science-based emissions reduction target for 2035, that is Paris aligned and consistent with IPCC timeframes. The Paris Agreement calls for holding the increase in temperature to well below 2C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5C. Alignment with the Paris Agreement ensures that Australia contributes meaningfully to global efforts in combating climate change while safeguarding against its most severe impacts.

ICA's member views on the main themes are summarised in the table below, please refer to the ICA's previous submissions for further detail.[1]

[1] ICA submission - 2035 emissions reduction targets (insurancecouncil.com.au)

Insurance Council of Australia

Question	Insurance Council response
1. How should the authority take account of climate science and Australia's international obligations in considering possible emissions reductions targets for 2035?	The authority should recommend a science-based emissions reduction target for 2035, that is Paris aligned and consistent with IPCC timeframes. The Paris agreement calls for holding the increase in temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C. As indicated in the Issues Paper, there are several published-studies which calculate Paris-aligned emissions reduction targets for Australia that should be reviewed by the Authority. The authority should take into account this analysis when setting an achievable emissions reduction target for Australia that also enables an orderly transition.
2. How should the authority weigh the goals of ambition and achievability in considering possible emissions reductions targets for 2035?	Australia's targets need to be sufficiently ambitious to align with the overarching goals of the Paris Agreement in limiting global warming to below 2°C, with an aspiration to limit warming to 1.5°C. This alignment ensures that Australia contributes meaningfully to global efforts in combating climate change while safeguarding against its most severe impacts. Establishing emissions reduction targets supported by robust monitoring, reporting, and verification mechanisms will support the achievability of targets. These mechanisms are essential for accurately tracking progress and ensuring accountability in meeting the set targets. Additionally, a comprehensive policy and regulatory framework must be in place to facilitate the achievement of these targets, providing clear guidelines and incentives for emissions reduction initiatives across sectors. Incorporating interim targets along the trajectory towards net-zero emissions by 2050 is also critical. Setting milestones for 2030, 2035, 2040, and 2045 provides a stable policy framework that allows businesses and investors to plan their transition to net-zero activities effectively. This stability enables better anticipation of future market conditions, technology trends, and regulatory requirements, empowering businesses and investors to align their strategies and investments accordingly. This reduces uncertainty and enhances investor confidence, fostering long-term sustainable investment decisions aligned with Australia's emission reduction goals.

3. How can Australia further support other countries to decarbonise and develop sustainably?	**International collaboration and best practice.** Australia should continue to actively engage in international collaborations and initiatives aimed at addressing climate change. This includes participating in forums such as the United Nations Framework Convention on Climate Change (UNFCCC) and its subsidiary bodies. Australia should leverage these forums to advocate for stronger climate action and international cooperation; and showcase successful components of domestic emissions reduction policy across the six sectors of Australia's economy including electricity and energy, industry, resources, the built environment, agriculture and transport to support other nations in meeting their targets. Key to this work will be ensuring that Australia demonstrates climate leadership by setting a science-aligned 2035 emission reduction targets, underpinned by robust climate policies. **Sustainable finance and disclosure**. Growing sustainable investment across global markets is critical to accelerating emissions reduction within and beyond Australia's borders. Policies that are essential to this include the development of an Australian sustainable finance taxonomy and mandatory climate and sustainability disclosure (see response 6 for more detail).
4. What technologies are important for each sector's pathway to net zero and why?	N/A
5. How can governments use mandates, rules, and standards to accelerate Australia's decarbonisation? Is more planning by governments needed? If so, how should this be coordinated and how can this be done while making the transition inclusive, adaptive, and innovative?	Governments can use mandates, rules, and standards to provide a framework for standardising approaches to key climate issues, ensuring consistent action across entities and sectors. For example, an Australian sustainable finance taxonomy is needed to provide common definitions that can be used to credibly define, assess and compare sustainable investments, providing investors with confidence. The Insurance Council is supportive of the Australian Sustainable Finance Initiative (ASFI) developing an Australian sustainable finance taxonomy and welcomes government support, investment and involvement to see the taxonomy finalised and implemented in Australia. In addition, while many insurers are voluntarily disclosing their climate-related risks, government regulation to transition from voluntary to mandatory disclosures of climate-related risks will help to set standardised reporting requirements which would facilitate comparability and transparency between entities and sectors and enable compliance to ensure that companies are taking meaningful steps to mitigate their climate impact. The Insurance Council is supportive of the Australian Government's proposed mandatory climate disclosure framework and welcomes commencement of the framework from 1 January 2025. It will be essential that mandates, rules, and standards set by the Australian Government align and harmonise with existing and future climate mandates, rules, and standards across jurisdictions and at the international

Insurance Council of Australia

level, as much as possible. Alignment with other jurisdictions will streamline obligations and processes for entities, as well as improving consistency and comparability of entities for consumers and investors.

6. How can governments stimulate private finance needed for the net zero transition – are there innovative instruments that could be deployed or new business models that governments could support? Is there a bigger role for governments to play in coordinating the investment needed to transition the economy?	Governments can stimulate private finance needed for the net zero transition by providing strong leadership on climate change, demonstrated through the setting of strong national emissions reduction targets that are underpinned by policies to support communities, businesses and industry to mitigate and adapt to the risk of climate change. Providing clear and consistent policy signals on climate change and the transition to a low-carbon economy creates a stable and predictable investment environment which enables businesses and investors to make long-term plans and allocate capital towards green and climate-friendly initiatives. Governments can also stimulate private finance needed for the net zero transition by addressing some of the barriers associated with blended finance. The insurance sector can play a key role with blended finance, as both investors and underwriters, however there are significant challenges involved. These include: • Insurers are usually approached late in blended finance contractual arrangements and transactions, after key financial arrangements are finalised. This limits the sector's capacity to assess project risks and offer risk management tools. • A lack of readily available and standardised data - at project level, region level, at risk level - can lead to heightened risk perceptions and deter investment decisions. Making quality data available will support more comprehensive risk assessments and enhance the role of insurers as risk advisors. • The limited size and supply of projects that can be financed through blended finance transactions could impede private sector investment and underwriting toward net zero projects. Aggregation of projects could help enhance the supply of these projects, increase the funding opportunities for otherwise smaller projects and enhance access to risk advisory and risk management services from insurers. Platforms facilitating aggregation of projects could help strengthen the supply of investable projects and support the accumulation and consolidation of data for analytics and risk assessments.
7. How can governments better support markets, including carbon markets, to deliver emissions reduction outcomes?	**Green Capital Markets** Government can support the continued development of green capital markets in Australia by providing strong leadership on climate change, demonstrated through the setting of strong national emissions reduction targets that are underpinned by policies to support communities, businesses and industry to mitigate and adapt to the risk of climate change. Providing clear and consistent policy signals on climate change and the transition to a low-carbon economy creates a stable and predictable investment environment which enables businesses and investors to make long-term plans and allocate capital towards green and climate-friendly initiatives. The Australian government should set a science-based emissions reduction target for 2035, that is Paris aligned and consistent with IPCC timeframes. The Paris agreement calls for holding the increase in temperature to well

Insurance Council of Australia

below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C. This target needs to be supported by a comprehensive set of policies that accelerate Australia's transition to net-zero, and the Insurance Council and its members look forward to continuing to collaborate on the Australian Government's energy and climate policies, including the roll out of the Powering Australia Plan, the National Energy Performance Strategy and the Sustainable Finance Strategy.

Carbon Markets

Government can support the continued development of carbon markets in Australia by providing a well-defined and robust regulatory framework to ensure the integrity of carbon trading markets and exchange platforms. This framework should include comprehensive rules and guidelines for market participants and establish clear procedures for transparent registration, verification, and certification of emission reduction projects and credits. Effective monitoring systems are necessary to track emission reductions and ensure compliance with regulatory requirements. Regular monitoring of projects and the verification of reported emissions help prevent misreporting or fraudulent activities. Furthermore, strong enforcement mechanisms should be in place to penalise non-compliance and deter fraudulent behaviour.

International harmonisation of standards, methodologies, and oversight mechanisms is crucial for the integrity of global carbon markets. Close cooperation between countries can help align regulatory approaches, share best practices, and establish a level playing field across markets, reducing the potential for regulatory arbitrage and ensuring consistent implementation of integrity measures.

Offset Markets

Government can support the continued development of offsets markets in Australia by ensuring that carbon credits are used in a way that supports genuine emissions reductions in line with achieving net zero emissions by 2050. Governments should ensure that robust standards for offset projects clearly define eligibility, methodology and performance; and encourage market transparency to allow users of offsets to make informed decisions and assess the credibility and environmental integrity of the offsets they purchase.

Governments can also play a role in ensuring high-quality accreditation schemes for offset providers and project developers to ensure that only credible entities can participate in offset markets. Regulatory bodies should also have robust oversight mechanisms in place to monitor offset projects, verify reported emissions reductions, and take appropriate actions against non-compliance or fraudulent activities.

Users of offsets should conduct thorough due diligence and risk management to assess project risks, reputational risks, and the reliability of offset providers, to be confident that offsets are procured from credible sources and align with the user's sustainability objectives.

Insurance Council of Australia

8. What further actions can be taken by governments (e.g. through public funding), the private sector and households to accelerate emissions reductions, including in relation to the deployment of technologies and access to new opportunities in the transition to net zero? What barriers stand in the way and how could they be overcome?	Innovation is crucial for achieving net-zero goals. According to analysis by insurer Allianz, mature technologies alone will contribute to only 25% of required CO2 emissions reductions. Over 75% of emissions reductions must come from emerging technologies. To achieve this, USD 3.3 trillion in average annual investments in innovative technologies is needed between 2020-2040.[2] There are considerable opportunities for public-private partnerships between governments and the insurance industry in Australia and globally, to de-risk and scale innovative technologies that can accelerate emissions reduction. In addition, whilst governments need to undertake measures to reduce emissions, government action is also needed to enhance the resilience of both the private sector and households to the escalating impacts of climate change. The Insurance Council welcomes the establishment by the Australian Government of the Disaster Ready Fund (DRF) from 1 July 2023, with up to $200 million to be invested annually in disaster mitigation for five years from 2023-24. However, given the long-term challenges posed by worsening extreme weather in Australia, investment in disaster resilience will clearly be required well beyond the 2028-29 end-date for budgeted DRF spending. To enable communities and governments to plan and develop a pipeline of these investments, Commonwealth disaster mitigation funding should move to a rolling ten-year program, as occurs with funding for land transport infrastructure and defence spending. In addition, disaster resilience funding must be matched by the states and territories, needs to be indexed from 2023-24 so it does not fall in real terms, and should include a commitment to investing the full amount of budgeted funding each year into disaster mitigation projects and, if this does not occur, to rolling uncommitted funding into later years. The Insurance Council welcomes the development of a national standard that considers disaster and climate risk as part of land use planning and building reform processes. Alongside the development of a new national standard, state and local governments should also focus on avoidance, mitigation, and the impacts of a disaster at the time of planning approval, to limit new development in areas prone to risk from current and future extreme weather events, including flooding, bushfires, cyclones and coastal hazards. The Australian Government should establish a consistent and accessible national database for climate projections and modelling for the key extreme weather perils for use by agencies involved in determining the spatial planning arrangements for future settlements, and other regulators and standards writing bodies with responsibilities for improving the resilience of the built environment. These government actions will complement parallel initiatives, such as integrating resilience into the

[2] Allianz, ClimateTech is the missing piece in the net zero puzzle, ClimateTech is the missing piece in the net-zero puzzle (allianz.com), 25 September 2023,

	National Construction Code (NCC). Increasing severity and / or frequency of extreme weather events will require more resilient buildings to better protect Australians. To enable this, the principle of resilience for buildings must be embedded in the National Construction Code (NCC). The Australian, State and Territory Governments should, via the Building Ministers' Meeting and ABCB, support amendments in the next round of review to the NCC and relevant Australian Standards to prioritise building resilience and consider current and future climate projections.
9. How should governments decide upon the appropriate allocation of resources towards reducing emissions, removing carbon from the atmosphere, and adapting to climate change impacts?	Governments investment towards emissions reduction must occur alongside adaptation investment. Even if increasing temperatures are limited to well below 2°C above pre-industrial levels, more frequent extreme weather events will still necessitate adaptation. Strengthening adaptation and mitigation measures is needed to improve the resilience of Australian homes and businesses to cyclone, flood and bushfire, which need to be undertaken in conjunction with community protection projects like levees, floodways, and fuel reduction. However, over the last decade the percentage of all government spending in resilience and mitigation has declined in comparison to the money spent on post-disaster recovery and clean-up. In Australia, 98 percent of the $24.5 billion in federal funding spent on disasters between 2005 and 2022 went towards recovery and relief rather than building resilience.[3] Integrated government investment in adaptation and mitigation measures for buildings and communities could be achieved by expanding the investment remits of the National Reconstruction Fund, the CEFC and ARENA to include adaptation and resilience.
10. How can governments, businesses and people, including First Nations people, help ensure the benefits and burdens of the net zero transition are equitably shared?	Improving the stock of resilient homes is an important tool to progress towards an equitable transition. The prevalence and effectiveness of resilient homes within a community can strengthen community resilience to climate change, including factors such as community-wide disaster preparedness and the ability of residents to recover quickly from climate-related events. In addition, the impacts of climate change are disproportionately impacting vulnerable communities, which is exacerbating insurance affordability issues and can leave residents without proper insurance coverage or struggling to recover after a disaster.[4] Improving the availability of resilient homes in vulnerable communities can help achieve a more equitable transition.

[3] The McKell Institute, The cost of extreme weather, McKell_Cost-of-Natural-Disasters_SINGLES_WEB.pdf (insurancecouncil.com.au), September 2022

[4] Actuaries Institute, Home insurance affordability and socioeconomic equity in a changing climate, 2022

11. How can governments better ensure First Nations people are empowered to play a leading role in the development and implementation of climate change policies and actions, including as they relate to the ongoing curation of the Indigenous estate?	N/A
12. How can Australian governments support the wellbeing of workers, communities and regions as the nation decarbonises, including in relation to cost of living, workforce and industry transition and access to low emissions technologies and services?	The transition to a net-zero economy requires investment in upskilling existing technicians and training technicians of the future. For example, an important component of Australia's net zero transition will be the increased uptake of electric vehicles, however this update is limited by skill shortages in electric vehicle repair. These skill shortages can contribute to delays in fixing a vehicle after an accident, which can increase cost and inconvenience to the consumer. To address this skills gap, state governments should prioritise and fund micro-credentials in electric vehicle repair to assist in upskilling existing mechanics, as well as adding electric vehicle repair to state-based training programs for school leavers and subsiding this training. Governments should strive to improve technicians' access to essential information on all electric vehicles in Australia to enable them to be safely repaired. This should start with a state government commitment of at least $1 million per state to set up a pilot program, which could be rolled out, and supported by the Federal Government's New Energy Skills Program. The Victorian Government is already progressing this, with a pilot program to upskill 500 electricians before developing a new course.
13. How can governments help Australians prepare for and respond to the impacts of climate change?	Australia is experiencing more severe and frequent extreme weather events that are projected to increasingly exceed historical norms and occur concurrently, with the mounting direct costs of extreme weather projected to reach $35.24 billion per year by 2050.[5] The insurance industry is uniquely placed to understand the impacts of extreme weather. Since the Black Summer of 2019/20 the Insurance Council has declared 12 catastrophes, and this has resulted in insurers recording over $12 billion in claims costs over the last two years alone.[6] In 2022 alone, there were more than 302,000 disaster related claims lodged from four declared insurance events across the country, costing $7.28 billion in insured losses.[7] Six

[5] McKell Institute for the Insurance Council of Australia (2022) Insurance Catastrophe Resilience Report 2021-22
[6] ICA CAT Data
[7] Insurance Council of Australia, Building Australia's Resilience: Policy Recommendations (insurancecouncil.com.au), 2023

billion dollars of these losses were from the northern New South Wales and South-East Queensland floods in early 2022, the second costliest insured event in the world last year and the costliest insured event recorded in Australia.[8]

The Insurance Council and its members have developed a set of policy recommendations, outlined in its report, "Building Australia's Resilience[9]", which chart a path for how we can build on these existing initiatives to create a more resilient Australia, lessening the impact when disaster strikes and ensuring we don't continue to put communities in harm's way. We strongly recommend the adoption of these recommendations by state, territory and federal governments. The recommendations include:

- Resilience investment: In the face of worsening extreme weather, the ICA encourages all levels of Government to increase funding to strengthen Australian homes and businesses, helping communities to build their resilience in the face of worsening fires, floods, cyclones and storms. This increased investment needs to be coupled with a change in approach to what we build and where we build it to avoid repeating the mistakes of the past. This includes funding for:
    - Buyback schemes to move people permanently out of harm's way.
    - Retrofitting existing properties to help them better withstand the impacts of extreme weather events such as floods.
    - Infrastructure projects that protect the community

    Given the long-term challenges posed by worsening extreme weather in Australia, investment in disaster resilience will clearly be required well beyond the 2028-29 end date for investment budgeted for in the Disaster Ready Fund. The Insurance Council believes that Commonwealth disaster mitigation funding must move to a rolling ten-year program, as occurs with funding for land transport infrastructure and defence spending.

    A ten-year, indexed program would cost approximately $2.5 billion over the medium term1, $1 billion less than the cost of disaster recovery payments and allowances in 2022 alone. Indexation from 2024-25 would cost approximately $396 million over 11 years, approximately $63 million of which would fall in the forward estimates. Annual funding would reach $266 million in 2034-35.
- National Construction Code and Standards: State and Territory Governments must work together to incorporate resilience standards in the National Construction Code (NCC) to improve the resilience of all future building stock and strengthen existing building stock over time through refurbishment. A report from the Insurance Council has found strengthening the NCC could save an estimated $4 billion a year and that extreme weather costs to homeowners will double by 2050, as events become more severe or

[8] ICA CAT Data
[9] Insurance Council of Australia, Building Australia's Resilience: Policy Recommendations (insurancecouncil.com.au), 2023

Insurance Council of Australia

more frequent because of climate change. All governments, via their 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.

- Improving competence and compliance: While there have been commendable efforts to change industry practice in recent times, failure to comply with the technical requirements of the NCC remains a major challenge in all jurisdictions. To address this, the Insurance Council encourages governments to continue to action the recommendations of the *Building Confidence Report* including nationally consistent requirements for the registration of building practitioners, their enhanced education and training, greater rigour in the certification of design and construction, and improved enforcement.
- Review of land use planning: The Insurance Council encourages governments to review land use planning arrangements considering both the likelihood and consequence of extreme weather events, including flooding. These reviews should adopt a catchment-based approach to land use planning and hazard management, based on existing Water catchment boundaries and consider current and projected extreme weather events and input from relevant councils. The ICA welcomes the leadership role the NSW government is continuing to play in reviewing land-use planning arrangements to better consider extreme weather risk, as tasked by National Cabinet. On the 22nd of February 2024, planning Ministers agreed that New South Wales will consult all jurisdictions in the coming months on this work and prepare a report and timeline for implementation into land use planning by all jurisdictions. Prioritise a risk-based approach: The ICA encourages Governments to deliver on National Cabinet's commitment to ensure development no longer occurs on flood plains and for planning legislation to include a mandatory requirement for strategic and statutory planning arrangements to consider property and community resilience to extreme weather events. Governments should prioritise development in areas of negligible-risk and low-risk to extreme weather for new dwellings, noting the probability of a hazard occurring and the 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.
- Improve Data: State Government should work with other jurisdictions and the Commonwealth to update, standardise and make publicly available climate hazard data, 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.

Insurance Council of Australia

14. What else should the authority be considering in its advice to government?	N/A

Insurance Council of Australia

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Ange Nichols, Adviser, Climate Action & Resilience, ange.nichols@nsurancecouncil.com.au.

Yours sincerely,

Andrew Hall
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