



Insurance Council of Australia

Australia's insurance industry snapshot

July 2024



Insurance protects families and businesses from the financial cost of damage and disaster - without insurance the cost of recovery would be carried by individuals, the community, and governments. A strong and sustainable insurance sector helps families, businesses and communities get back on their feet. It's the reason insurance exists.



88m
general insurance policies written in Australia



86
general insurance companies



46,000
employees

39.2m

motor-related policies

\$17.5b

motor-related claims

13.1m

home and homeowner policies

\$9b

home and contents claims

\$7.7b

paid by customers in state taxes



\$4.6b

industry profit

2023 data

Why are insurance premiums going up?

Wherever you live in Australia - whether you're exposed to extreme weather or not - premiums are rising because of the escalating cost of extreme weather, the growing value of our assets, inflation in the building and motor repair sectors, and insurers' increasing cost of doing business.



Worsening extreme weather

- Natural disasters have caused more than \$34b in insurance claims since 2010, split between flooding (38%), storms and hail (34%), cyclones (18%) and bushfires (10%). The actual damage bill is much higher.



More people in harm's way

- In Australia, around 1 in 12 properties (1.2m) have some level of flood risk. Of these, at least 230,000 are at risk of flooding every 20 years.
- 5.6m Australian homes are at risk of a bushfire.
- Australia's population continues to grow in places with greater exposure to storms, floods, bushfires and cyclones.



Rising costs and cost of doing business

- The cost of repairing or rebuilding a home is now 27% higher than it was at the start of the COVID-19 pandemic.
- Because of Australia's worsening extreme weather, global reinsurance premiums have increased by up to 30% - that is, the insurance that insurance companies buy which enables them to share Australia's risk offshore.

We're not alone

- These pressures are being felt across the globe. Global annual insured losses from natural catastrophes totalled more than **US\$100b** for 6 out of the last 7 years.
- In 2023, the US property and casualty insurance sector lost **US\$21.2b** despite a 10% growth in premiums.



We're taking action

Insurance is a risk calculation. To reduce the costs we need to reduce the risks.

Australia's extreme weather affects us all

- Since 2019, insurers have paid out \$19b in claims from 20 declared Insurance Catastrophes or Significant Events.
- Flooding is the costliest extreme weather event in Australia and its impacts are only expected to get worse because of climate change.
- 2023 was the hottest year on record.
- Insurance claims from catastrophic events have exploded by nearly 50% over the past five years.
- The cost of extreme weather events are expected to grow by 5% each year and reach a total of at least \$35b annually by 2050.

Projected annual costs by 2050:



Cyclones
\$4.4b



Floods
\$2.3b



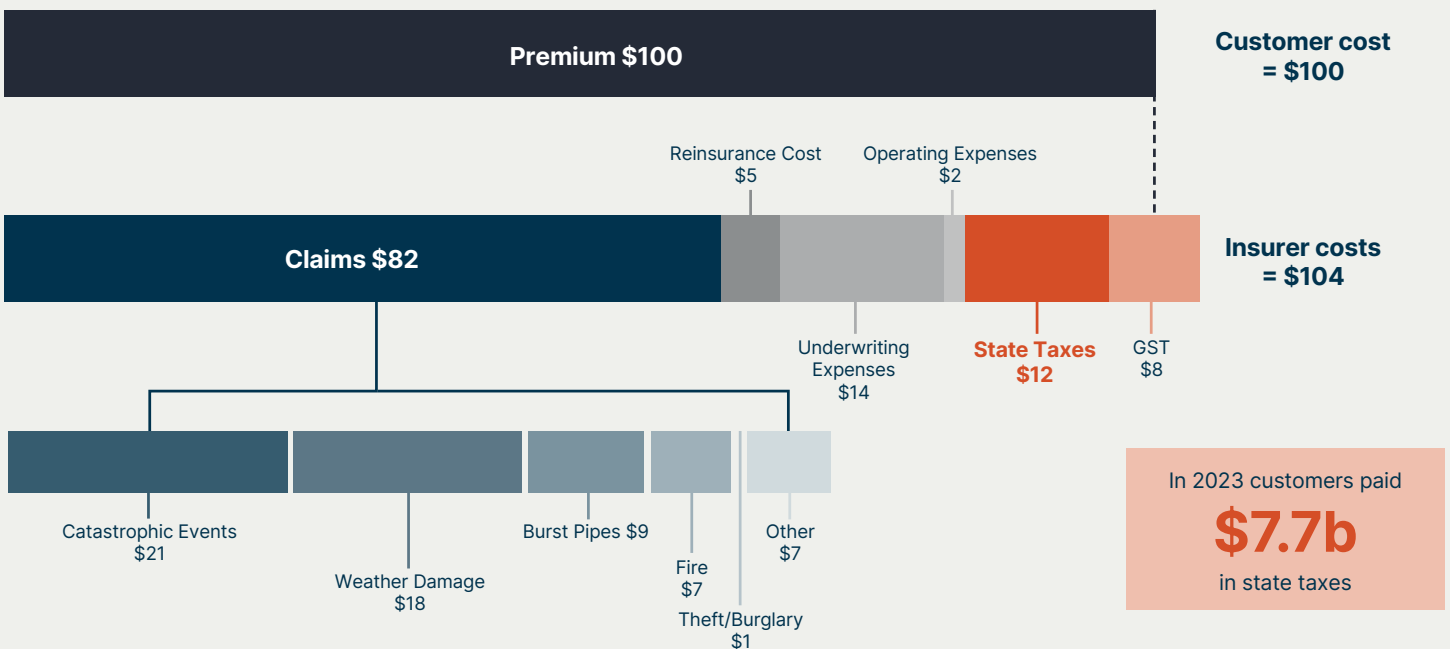
Bushfires
\$2b



Costs are up and will continue to rise

- Extreme weather events are costing Australian homeowners around **\$4b** a year.
- By 2050, the costs of rebuilding and repairing homes, replacing contents, and displaced people are expected to exceed **\$8.7b** per year. This is a conservative estimate and more than double the current costs.

Over the last 3 years insurers have lost \$4 for every \$100 paid by customers for home insurance



State stamp duties of around 10% mean **all insurance customers are taxed twice**, making insurance less affordable for all and impacting those in higher risk locations the most.

According to APRA, Australian insurers have lost more than \$650m on home insurance policies over the past four years to 2023.

What more should we be doing?

Insurers support the Federal Government's significant increase to resilience funding, a commitment of \$1b over five years matched by the states and territories.

But more can be done.

- ✓ Make greater investment in public infrastructure that protects communities from the impacts of extreme weather.
- ✓ Invest significantly in programs that assist householders to strengthen homes against the impacts of extreme weather events.
- ✓ Change planning laws to stop home construction in high-risk locations, particularly areas at risk of flood.
- ✓ Change the construction code to make future buildings more resilient.
- ✓ Based on the successful Queensland and NSW programs, establish an ongoing program of buybacks for homes most at risk of flood.
- ✓ Remove state taxes and charges on insurance to improve insurance affordability and enable more Australians to take out adequate cover.

Is there proof that prevention can work?

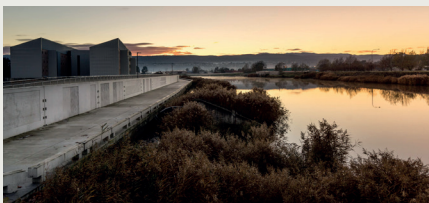
Yes, projects like those below can deliver tangible benefits, providing greater protection of lives and property as well as reducing premiums, and demonstrate why government investment in mitigation can work.

Flood Levees – Roma Queensland (2015 - 2019)



The levees cost \$24m to protect more than 500 properties, with a reduction in premiums of 60% and up to 90% in some cases.

Flood Levee – Launceston, Tasmania (2016)



This levee saved the community an estimated \$216m in recovery costs from an investment of \$58m. The benefit was four times the expenditure from just one flood.

Queensland Household Resilience Program (2018 - now)



This hallmark program resulted in average insurance premium reduction of 9% with some reductions of up to 25%.

What would that mitigation do?

Save money. Research commissioned by the ICA from Finity showed that a five-year program of resilience measures costing approximately \$2b would be expected to reduce household and government costs by more than \$19b by 2050, delivering a return on investment of almost 10x nationally.



97%

of all disaster funding by governments is spent on clean-up and recovery



with just

3%

spent on prevention and mitigation.



The 2020 Bushfires Royal Commission found that a \$1 investment in disaster risk reduction saves between \$2 and \$11 in post-disaster recovery and reconstruction.

The insurance industry is working with the Federal Government to identify those areas across the country that would benefit from similar mitigation efforts. It's a collaborative effort that we are deeply committed to.

How is the insurance industry taking action?

What the ICA and its members are doing to make insurance more affordable and accessible



Helping consumers compare apples with apples.

Supporting standard definitions for maintenance and wear-and-tear and working with Treasury on its investigation into the standardisation of natural perils definitions – changes that would mean all policies have the same definition for flood, fire and storm.



Empowering customers through better information and tools to

make more informed decisions about their cover, premiums and natural disasters. We helped develop the Bushfire Resilience Rating App which measures the resilience of individual homes to local bushfire risk. The use of this app now provides a discount from some insurers.



Benchmarking the industry to ensure best practice.

The ICA commissioned Deloitte to investigate how insurers had performed following Australia's largest ever flood. This report included seven recommendations for change which have already led to shifts in insurers' approach to claims handling, communication, and identifying vulnerable customers.



Improving communication with impacted customers

from the ICA and insurers. We're doing more to proactively communicate with local communities and stakeholders. We held 33 community consultation forums in 2023 alone.



Advocating for long-term solutions.

Using evidence and data to take the argument to governments at all levels that more needs to be done to make homes safer and regions more resilient to catastrophic weather events. We need to improve the long-term viability of communities at risk.



There are some things all customers can do to have more control over the cost of their insurance, including shopping around to make sure they have the right product for them, tailoring their policy to only cover assets they must insure, and raising their excess.

Looking ahead - what's needed to better deliver for Australia

Better data

80% of Australians believe government should be responsible for providing more information about a property's risk from natural disasters.

Increase resilience and mitigation funding

A 10-year rolling program with indexed funding so it doesn't fall in real terms.

Improve land use planning and building standards

A national standard for considering disaster and climate risk, including technical requirements for building resilience.

State taxes

Removal of unfair state taxes on insurance, such as the NSW ESL and stamp duties, to improve insurance affordability and reduce rates of underinsurance.

Working collaboratively

Australians need a viable insurance sector to support their lives. The insurance industry and governments must collaborate to better support customers.