



## Interview transcript

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E&OE Radio Transcript  
ICA CEO, Andrew Hall  
ABC Radio National Breakfast

**TOPICS:** Extreme weather risk, insurance affordability, risk pooling, resilience investment

**HOST, SALLY SARA:** Andrew Hall is the CEO of the Insurance Council of Australia and joins me now. Andrew, welcome back to breakfast.

**INSURANCE COUNCIL CEO, ANDREW HALL:** Thank you, Sally.

**SARA:** Well, let's have a look at this proposal first. This group of councils in Queensland is considering underwriting a not-for-profit mutual fund that would provide insurance for locals. Is that a solution? Will that work?

**HALL:** Well, Sally, I mean, I understand the frustration that the Mayor has. And if we zoom out a little bit, southwest Queensland councils are not alone. There's 24 high-risk catchments across Australia where we're seeing very high insurance premiums that are driven by the underlying risk which is the flood risk and I understand councils everywhere get very frustrated because these solutions are not easy ones and they're very long term and they're expensive. So this is an idea, mutuals are not an uncommon idea in the world of insurance. In fact some of the largest insurance companies globally started life and still are mutuals. Mutuals get set up by group of people who decide to pool a risk. And sometimes that's in insurance, sometimes that's in banking. But my main concern would be with this idea, is that regardless of how you want to pool that risk, whether it's via the private sector, through insurance companies that are publicly listed or privately owned or through a mutual, the key factor remains that unless the underlying risk is brought down, there is still a lot of cost in that system and you're going to need very deep pockets to be able to fund all those claims that could come if the worst happens.

**SARA:** Is the Insurance Council supportive of this proposal or is the Council cautioning against it going ahead?

**HALL:** Well what we would like to be doing is working with councils across Australia on trying to come up with solutions that reduce the risk. Australia is one of the few developed economies around the world with insurance markets that don't have a mechanism for pooling the flood risk. And that's something that the Assistant Treasurer Daniel Mulino acknowledged at the end of last year. And he indicated that the federal government is doing work on that. I think the solution to this problem is definitely some form of PPP. It's a Public-Private Partnership. It comes in the

form of both federal, state and local governments working together. The insurance industry in the last two years has now provided all of its peril data, and that's quite commercially sensitive data, to the federal government through the Hazards Insurance Partnership. So there is a very clear understanding now what we can see as insurance companies where the highest risk areas are. So what we then need to do is in talking to government is ask the question, what do we do to reduce that risk over the long term? And last year we did put up a proposal for a \$30 billion Flood Defence Fund over 10 years. And at the same time we're doing that, how do we bring down premiums in those high risk areas by creating some sort of pooling mechanism? Now I'd be a little bit concerned if ratepayers are funding studies with brokers to try to set up a mutual, while at the same time, governments probably can step in here and achieve the same outcome. So I think there is definitely work to be done this year. We are talking to the federal government each and every day about this, and we're analysing all the data that we can get our hands on to see what the cost of all that would be.

**SARA:** Why is your preference for state and federal governments to take action here rather than local government?

**HALL:** Well, for a start, state governments collect taxes off insurance premiums. At the moment they're collecting about \$8 billion a year off insurance policies across Australia but we are not seeing \$8 billion a year go into climate adaptation across this country. The federal government, it released its climate report last year, it talked a lot about adaptation and mitigation moving forward. What that practically means from a financial perspective, from an insurance perspective, is that we know where those communities most at risk of flooding are. We can predict it, we can model it, we can say with great certainty the frequency and the depths to which it's going to happen. If we know all of that now, we really need to be putting in place plans to be building the infrastructure to be able to protect those communities. And if we know the infrastructure is coming, insurers can then work with governments on creating some sort of pooling mechanism to be able bring down those costs of those premiums in those high-risk areas. So I think it's a lot more complicated. It is a real challenge in terms of a public policy problem to solve for. But I would hope that really local government needs to work collectively with state and federal governments on this because it's going to be a national solution. I really worry about a localised solution, that has no diversified risk, being very heavily financially exposed.

**SARA:** The Mayor of Balonne Shire, Samantha O'Toole, was expressing quite a deal of frustration with the Insurance Council. Are you being cooperative and productive here?

**HALL:** Well Sally, we've been to every meeting we've been invited to. We've been to Roma, we went to Charleville, we took insurers out to Charleville last year and they explained how they do their pricing. There are two key things that are happening in southwest Queensland and they're happening not only there but they're happening in other parts of regional Australia. Number one, the cost of building and repairing homes has gone up around 40% and it's in fact a lot higher, much, higher in regional areas than it is in metropolitan areas. So that gets factored into an insurance policies premium. Quite often properties that are worth about \$200,000 to \$300,000 are costing around \$600,000 to \$800,000 rebuild. So it's clearly an economics issue that is really challenging us at the moment in regional areas. But that can be pooled across the country and that's largely what insurers do. In fact, probably what we would see across most of the pricing in those areas is that the premiums are relatively capped and those costs are getting pooled across metropolitan areas. I think the second thing is that risk reduction, not enough of it is taking place. And we see in towns like Charleville, they have a levy that was built for a one in

80 year flood. But the reality is we've got plenty of data and history to show that Charleville can be subjected to one in 100 year floods. So the frequent nuisance floods, they are protected, but every 20 years, Charleville is at risk of a very serious level flood. And that's what the premium is pricing for. So these are the sorts of things that we need to work with governments on to make sure we've got the right investment.

**SARA:** Andrew Hall, thank you for your time this morning.

**HALL:** My pleasure. Thank you, Sally.

**ENDS**