

The Suncorp Group Insurance **Response**

Barriers to Effective Climate Change Adaptation

Productivity Commission Issues Paper



December 2011

One Company
Many Brands





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About the Suncorp Group

The Suncorp Group of companies (Suncorp) includes leading general insurance, banking, life insurance, and superannuation brands in Australia and New Zealand. Suncorp has around 16,000 employees and relationships with nine million customers. It is a Top 25 ASX listed company with over \$95 billion in assets.

Suncorp has five core businesses: Personal Insurance; Commercial Insurance; Vero New Zealand; Suncorp Bank and Suncorp Life.

This submission is made on behalf of the Suncorp General Insurance division which includes both Personal Insurance and Commercial Insurance lines of business.

Personal Insurance brands include AAMI, Apia, GIO, Shannons, Just Car Insurance, Suncorp Insurance, Vero Travel, Bingle and InsureMyRide.

Commercial Insurance brands include GIO, Vero and AAMI.

For more information about the Suncorp Group visit: <http://www.suncorp.com.au/corporate/about>

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Executive Summary

There is an increasing amount of evidence that links climate change to the frequency and intensity of extreme weather events. A recent report published by the Intergovernmental Panel on Climate Change warns that south-east Australia is faced with increasing risk from bushfire, rising sea levels and heavy precipitation events.¹ As one of Australia's largest general insurance groups Suncorp understands firsthand the devastating effects extreme weather can have on the community.

The general insurance industry provides a vital safety net against the financial and economic impacts of extreme weather. As the climate changes and extreme weather events become more frequent and severe there will be an increasing reliance on insurance claims payments to support community and economic recovery. It is therefore vital that the insurance industry be supported in their aim of maintaining an efficient and effective operation.

Suncorp has identified several barriers that we believe impede the efficient and effective operation of the insurance market which, by extension, will impact Australia's ability to adapt to climate change.

Mitigation is crucially important to managing the risks associated with extreme weather events. Community attention naturally falls upon disaster recovery following extreme weather and as a result disaster mitigation is often overlooked. Suncorp believes that the value of mitigating the impacts of extreme weather through activities such as flood levies, firebreaks and strengthened building codes is currently underestimated. We contend that an increased focus on mitigation works will be a fundamental step in safeguarding Australia against the effects of extreme weather.

Strengthened building codes will be an important step in mitigating the impact of extreme weather. Suncorp has identified that some local overlay building codes are more robust than others. This has resulted in some areas being better protected than others. Furthermore the limited application of building code improvements to existing homes leaves many homes exposed to otherwise preventable damage. The effective development of building codes will be an important tool through which the Government can drive climate change adaptation.

To supplement a strengthened mitigation program, options for improving insurance uptake and operation should also be considered. State-based insurance taxes, levies and duties currently form a significant deterrent to obtaining insurance cover in all States. The transition away from state-based insurance taxes to more equitable and efficient taxation systems will be required to ensure insurance premiums can remain affordable.

Ensuring an understanding of insurance products will be equally important as maintaining affordable premiums. Circumstances highlighted by the recent flood events in Queensland, suggest that the current insurance disclosure regime is not effective. Despite the insurance industries best efforts, there remains a general air of mystery around insurance products. It is therefore important that the current financial services disclosure regime be reviewed and redesigned to be both more effective and cost efficient.

The provision of personal advice on general insurance products is extremely valuable to promoting an understanding of insurance. Despite both consumers and companies recognising the immense value that could be gained through personal advice, the current regulatory environment prevents the commercially viable provision of personal advice by direct insurers. Regulatory reform that enables and supports the provision of personal advice for general insurance products will be vital in promoting community understanding of insurance products.

Taking a broader perspective of risk analysis, it would seem in many cases that the community does not truly understand the level of risks they face. This can be seen through inadequate levels of insurance amongst home owners, exclusions relating to perils such as storm surge for insurers and incomplete disaster management plans amongst various governments. As such, we believe that developing a clear national picture of risk will be important for all aspects of the Australian economy. It is only with an understanding of risk that individuals, businesses and governments can begin to appropriately manage those risks.

Finally, the development of research that attempts to quantify the effects of climate change will be a significant challenge. Whilst it is recognised that climate change will impact weather patterns, the extent to which this may occur is unknown. This in effect places the community in a position of attempting to prepare for an event of which the type, scale and severity is unknown. The insurance industry traditionally relies on historical data to assess risk and will be in particular need of assistance in attempting to understand the new and changing risks we will face in the future.

The barriers to effective climate change adaptation are broad and various. The few we discuss here represent the ones that Suncorp believes will have the greatest benefit at the lowest costs. Each barrier and associated recommendation builds upon the previous. It is Suncorp's hope that by addressing these barriers together, in a broad package of reform, Australia will be capable of adapting to the challenges we expect to face in the future.

¹ Grim warning on extreme weather for Australia, Intergovernmental Panel on Climate Change Press release, 21/11/2011

Detailed Responses



Chapter 1 – The importance of mitigation

The summer of 2010-11 brought about an unprecedented series of disasters for Australia. The financial, economic and emotional impacts have been extreme. From a financial perspective, Suncorp has processed more than 40,000 claims valued at just over \$1 billion in Queensland alone.² Economically, the disruption of productivity is estimated to have caused \$6 billion of damage to Queensland's Gross State Product in 2010-11.³

The magnitude of these figures demonstrate the financial impact of this year's extreme weather but do little to communicate the emotional tolls natural disaster has on the community. It is impossible to truly measure the emotional impact of disaster, however it is safe to say that this year's events have had a profound effect on millions of Australians.

In response to the extreme nature of these events the Federal Government announced a comprehensive recovery plan, including a \$5.6 billion funding package to support flood recovery.⁴ Under the Australian Government Disaster Recovery Payment scheme the Attorney-General's Department has distributed \$823 million to 715,000 Australians.⁵ Suncorp supports strong disaster recovery but is seriously concerned by the lack of funding allocated towards mitigation efforts.

In comparison to the recovery payments noted above, funds available for mitigation works under the National Partnership Agreement on Natural Disaster Resilience (NPA) total just \$27 million per annum.⁶ Whilst the National Strategy for Disaster Resilience is comprehensive it appears that the funding to support the strategy is not available. Recently, the Renmark Paringa Council is reported to be 'fighting' to gain funding to finance repair of their existing flood levy.⁷

Suncorp reiterates our support for strong disaster recovery, however as extreme weather becomes more prevalent there will be an increased need to focus on mitigation works that protect life and property prior to a disaster. By focusing on mitigation works such as flood levies, fire breaks and building code improvements (that safe guard the community prior to disaster) the Government can unlock benefits including:

- reduced human cost by elimination of the emotional impacts associated with loss of life and property;
- improved productivity as businesses and employees recover from disaster quickly; and
- reduced financial loss due to a lowered damage to property.

As is commonly referred to in the medical profession, prevention is better than cure.

Suncorp has a strong recovery role to play after a disaster. As the figures above show, our response to natural disaster has a significant positive impact on the financial, economic and emotional recovery of affected communities. As an insurer, we can support mitigation through risk based pricing (that incentivises the minimisation of risk) but there is little we can do to develop mitigation infrastructure. This is primarily a role for Government.

2 Road to Recovery, Deloitte Access Economics, October 2011 pg. 13 available: <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTEyOTcyfENoaWxkSUQ9LTF8VHlwZT0z&t=1>

3 Ibid, pg. 7

4 Rebuilding After the Floods, Prime Minister Julia Gillard, Media Release, 27/01/2011

5 Annual Report 10-11, Attorney-General's Department, 16/09/2011 pg.99

6 National Partnership Agreement on Natural Disaster Resilience, Attorney-General's Department, 14/10/2011

7 Council fights for flood mitigation funds, ABC News, 02/05/2011 available: <http://www.abc.net.au/news/2011-05-02/council-fights-for-flood-mitigation-funds/2700528>

Case Study 1 – Lowered premiums result from flood mitigation.

In Goondiwindi, south west of Brisbane, flood mitigation undertaken by the local council is being reflected in Suncorp's flood modelling.

The new flood levee shields Goondiwindi Township from the McIntyre River and is designed to withstand an 11 metre peak. This protection improved our flood model for the area and resident's premiums were lowered an average 33% per annum. Suncorp revised many of its flood ratings from high risk to no risk following installation of the levee. In some cases customers saw their premiums reduce by up to \$1,000 per annum.

	Before Levee	After Levee	Difference
Average Premiums	\$1053	\$706	\$347

The financial benefits extend well beyond lower premiums for policy holders. Due to the flood levy Goondiwindi was able to largely avoid the emotional and financial costs associated with Queensland's most disastrous flood.

Barriers and Recommendations – Mitigation Strategies

Barrier 1	Community focus commonly falls on disaster recovery following a natural disaster. The lack of focus on disaster mitigation has resulted in many areas of Australia being under-protected against extreme weather events.
Recommendation 1	The Federal Government launch an inquiry to examine disaster mitigation in Australia. This inquiry be tasked to examine strategies that ensure mitigation activities are sufficient to cost effectively address future requirements.
Recommendation 2	Disaster mitigation be approached at a national level with local government implementation.
Recommendation 3	Federal Government funding of local risk mitigation be increased in recognition of the increased risk of extreme weather events. Federal funding of \$27 million per annum does not appear to be commensurate with the risk.

Chapter 2 – Building codes

There is a clear correlation between a building's design and its ability to withstand extreme weather. Suncorp has observed that changes to local building codes in high risk areas have had a dramatic impact on that community's resilience to extreme weather events.

Following Cyclone Larry in 2005-06 a stronger building code was implemented in Innisfail. The code was significantly strengthened and now requires homes to be designed to withstand cyclone force winds. All homes that were repaired or rebuilt following Cyclone Larry were subject to the stronger building code.

Suncorp has reviewed the claims data following Cyclone Yasi this year and confirmed that the rebuilt areas of Innisfail saw significantly lower average claims costs when compared to surrounding areas. The average repair cost of Cyclone Yasi damage in Innisfail was \$56,000 compared to nearby Tully and Cardwell at approximately \$110,000.

Suncorp considers that the Innisfail figures demonstrate that a strong building code, developed in consideration of the local environment, can have significant positive impacts on the community. Research conducted James Cook University's (JCU) Cyclone Testing Station supports this conclusion. The JCU research in Cyclone Yasi found only a 3% roof damage rate in post-1980's homes compared to 12% in pre-1980's homes.⁸ This research clearly demonstrates the benefits that have arisen from the strengthening of building codes in 1980.

Suncorp suggests there is a need for strong building codes that are proactively reviewed and updated. Whilst we recognise current building codes are already robust and well planned, Suncorp believes that a more regular review (and when required strengthening) of building codes would benefit all Australians. A national framework in support of building code review and development should be implemented.

It is also important to consider how building code improvements may be applied to existing properties. As noted in JCU's research into Cyclone Yasi, the damage to pre-1980's built homes is far greater than that of post-1980's homes. Furthermore, their street survey found that between 20% and 40% of large debris released from pre-1980's homes caused damage to downwind properties.⁹ There is clear need to address the standard of homes constructed prior to building code improvements and consider cost-effective strategies to bring these buildings up to code.

Suncorp argues that it stands to reason if an improvement is deemed necessary for new homes in a particular area, then existing homes would also benefit from that same improvement. As a minimum, we believe that all home owners should be notified of building code changes that apply to their area. They should also then be offered assistance from relevant state and local government authorities in investigating options for improving their own properties. In the longer term it would be desirable for State Governments to investigate more robust policies that support the application of building code improvements to existing properties.

Barriers and Recommendations – Building Codes

Barrier 2	Inconsistent approaches to the development of local overlay building codes have left some areas better protected than others. Whilst some high risk areas have robust building code requirements others accept a lower standard.
Barrier 3	The application of building code improvements to existing homes is limited. This leaves existing homes at a higher risk compared to the newer properties.
Recommendation 4	The Council of Australian Governments (COAG) review and where appropriate strengthen current building codes in consideration of the increased risk of extreme weather events.
Recommendation 5	A national framework for building code development, including periodic review, be formalised with consultation with industry, community and relevant government agencies.
Recommendation 6	State Governments investigate strategies to encourage home owners to adopt building code improvements in existing properties.

⁸ Tropical Cyclone Yasi Structural damage to buildings, Cyclone Testing Station, James Cook University, 19/04/2011

⁹ Ibid. pg. 100

Chapter 3 – Insurance tax reform

Insurance taxes, duties and levies currently form a significant barrier against Australians purchasing affordable insurance cover. Despite the vital economic protection insurance offers the community insurance premiums are currently subject to the imposition of multiple taxes. These taxes significantly increase the cost of insurance and deter customers both from purchasing insurance cover and from obtaining appropriate levels of cover.

Research conducted by the Insurance Council of Australia into non-insurance has found that:

- Affordability is a significant constraint on insurance and that State taxes impact on insurance affordability and in turn, non insurance;¹⁰ and
- Over 80% of small to medium enterprises who indicated that they were inadequately insured sighted the cost of insurance as a barrier to purchasing.¹¹

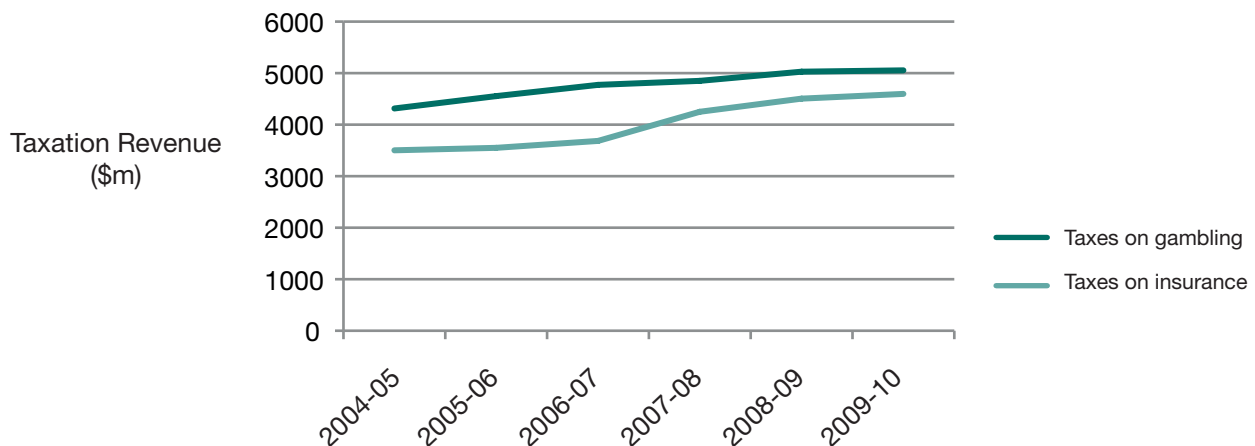
The effect that insurance taxation has on insurance affordability is significant. One example of this impact can be seen in NSW home and contents insurance policies. Throughout the 2010/11 financial year insurance premiums in NSW were subject to three additional taxes. These taxes were Fire Services Levy (20%), GST (10%) and Stamp Duty (9%). These taxes are charged in a compounding fashion (i.e. a tax on a tax) which further exacerbates the impact.

Base Premium \$100	+	FSL (20%) \$120	+	GST (10%) \$132	+	Stamp Duty (9%) \$143.88	=	Total Cost \$143.88
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In combination insurance taxes add an additional 43% to NSW home and contents premiums.

This tax environment is not unique to NSW, all states and territories have at least one tax, duty or levy applied on insurance premiums. The Australian Bureau of Statistics reports that insurance taxes contributed \$4.60 billion in taxation revenue across all levels of government in the 2009-10 tax year.¹² By comparison, the so called 'sin tax' on gambling (designed to discourage gambling) contributed a broadly similar total of \$5.05 billion over the same period.

Chart 1 – Taxation Summary – All Levels of Government



Data Source: 5506.0 - Taxation Revenue, Australia Bureau of Statistics, 12/04/2011

Suncorp sees this tax imposition as a significant barrier to Australians adapting to climate change. The current taxation scheme not only deters consumers from purchasing insurance, but will also have a tax multiplication effect on future premium changes. As insurers adjust risk based pricing in recognition of new and increased risk related to extreme weather, any change in premium increase will be exacerbated by insurance taxes. In the current taxation environment a \$1 premium increase in NSW will ultimately cost our customers an additional \$1.46 in total premium.

10 The non-insured: who, why and trends, R. Tooth and G. Barker, Insurance Council of Australia, May 2007 pg 4

11 Non Insurance in the Small to Medium Size Enterprise Sector, Insurance Council of Australia, December 2008 pg 1

12 5506.0 - Taxation Revenue, Australia, 2009-10, Australian Bureau of Statistics, 12/04/2011

Suncorp believes that this tax multiplication effect will result in severe affordability issues as taxation begins to push premiums out of the reach of many Australian budgets. Already Suncorp is beginning to see higher than usual numbers of policy holders seeking to reduce their level of cover at renewal, to balance the overall cost of insurance. Anecdotally, consumers faced with higher total premiums will consider a reduction in level of cover to balance increased premiums. Consumers commonly request lower sums insured, increase their excesses, remove optional covers or even change to a lower standard of cover to reduce premiums. In essence, the cost impost of insurance tax is driving consumers to seek lower levels of cover.

Suncorp strongly supports recommendation 79 of Australia's future tax system which states:

"All specific taxes on insurance products, including the fire services levy, should be abolished."¹³

Case Study – Tax impost on Small Business

Insurance taxation places a significant impost on small businesses. For example, a standard fire policy for a local bed and breakfast business in Belgrave, Victoria, attracts a level of taxation that more than doubles the premium payable.

Nature of Business:	Bed and Breakfast
Cover:	Fire and other damage (GIO Small to Medium size enterprise insurance)
Location:	Belgrave, Victoria
Sum Insured:	\$350,000
Base Premium:	\$770.72

The risk based premium calculated for quote is \$770.72. This base premium is subject to the additional taxes below:

Terrorism:	\$19.76
FSL:	\$671.91
GST:	\$146.24
Stamp Duty:	\$160.86
Total Premium:	<u>\$1769.49</u>

The total of insurance taxes applied to this example local business is \$998.77.

Suncorp would like to publicly thank Victorian State Government for their recent efforts in transitioning FSL away from insurance premiums to a more equitable land-based tax. Suncorp appreciates the proactive and collaborative approach the Victorian Government and Department of Treasury and Finance has taken in resolving the issues highlighted in this case study. We encourage all State Governments to continue the review and transition away from insurance based taxes, levies and duties.

Barriers and Recommendations – Insurance Taxation

Barrier 4	Insurance taxes constitute a significant portion of average premiums which is impacting affordability. The tax multiplication effect associated with rising premiums will severely impact affordability, should premiums rise as a result of climate change.
Recommendation 6	That all state-based insurance taxes, duties and levies be transitioned to alternative taxation systems by no later than 2015.

¹³ Australia's future tax system, Report to the Treasurer, December 2009, Part Two Detailed Analysis, Volume 2, p474

Chapter 4 – Financial services disclosure reform

There is evidence to suggest consumer awareness of insurance products, levels of cover and the value of insurance could be improved. In 2001, disclosure regarding General Insurance products was reformed under Financial Services Reform (FSR). The reforms sought to create clear, concise and effective disclosure regarding General Insurance products with the ultimate aim of enhancing consumer awareness. Suncorp suggests that this aim may not have been achieved.

In particular, disputes regarding flood coverage after the Queensland floods indicate that disclosure of coverage limitations needs to be improved. Additionally, generally high rates of under-insurance and non-insurance in the community suggest that the community is not well informed of the value insurance cover provides.

Insurance Council figures estimate that as many as 23% of Australians (7.7 million homes) have no building or contents insurance.¹⁴ Amongst those that do hold insurance, many have insufficient levels of cover. Review of Suncorp total loss claims that resulted from the Black Saturday fires reveal an alarmingly high level of under-insurance:

- GIO and Suncorp saw average under insurance rates of ~56%
- AAMI saw estimated rebuilding costs ~50% higher than the sum estimated under AAMI complete replacement cover and ~80-90% higher for policies with a specified sum insured.
- Apia saw underinsurance rates of ~74%

NB. In this context underinsurance means the estimated full replacement cost compared to the nominated sum insured (or sum insured estimate for total replacement cover) of total loss properties affected by the 2009 Victorian Bushfires.

Whilst there are a variety of factors that contribute to under-insurance and non-insurance, Suncorp believes that consumer awareness is a key contributor. We observe that the current financial services disclosure scheme has led to the creation of numerous lengthy disclosure documents. Whilst each individual part of the scheme may be clear, the overall scheme has become sufficiently complex to deter the average consumer from investigating the products on offer.

Recent evidence provided to the Inquiry into the operation of the insurance industry during disaster events by the Chairman of the General Insurance Practice Committee, Actuaries Institute astutely summarises the current situation.

*"I personally do not read my insurance policy. This is a really difficult issue. You can try to better inform consumers, but: you can lead a horse to water, but you cannot make them drink. That is a big part of the issue."*¹⁵

Suncorp suggests that a better public understanding of insurance products will be fundamental in facilitating climate change adaptation. As we all enter a period of climatic uncertainty, the financial stability that Insurance offers will be vital to maintaining the Australian economy and way of life.

Achieving a better community understanding of insurance products will be a difficult task that will require concerted effort by a broad range of stakeholders. Suncorp suggests a sound starting point would be an implementation review of FSR.

More than a decade on from the implementation of FSR, Suncorp believes that an in-depth review of financial services disclosure is warranted. The findings of this review could then be used by all stakeholders to develop strategies aimed at improving consumer understanding of insurance products.

Barriers and Recommendations – Financial Services Disclosure

Barrier 5	The practical implementation of Financial Services Reform has lead to a complicated disclosure regime that does not appear to have met the original goals. As a consequence, many Australians are making choices that place themselves at risk of bearing the financial cost of disasters associated with climate change.
Recommendation 7	The Federal Government initiate a full review of the FSR disclosure scheme with the aim of ascertaining whether the consumer focussed goals have been met. If necessary, undertake to redesign the scheme to be both more effective and cost efficient.

¹⁴ The non-insured: who, why and trends, R. Tooth and G. Barker, Insurance Council of Australia, May 2007

¹⁵ Proof Committee Hansard, House of Representatives Standing Committee on Social Policy and Legal Affairs, 3/11/2011, pg 5, <http://www.aph.gov.au/hansard/rep/commtee/r430.pdf>

Chapter 5 – Personal advice

Given the broad lack of understanding regarding insurance discussed in chapter four it is clear that consumers could benefit from the provision of personalised advice from their insurance provider. Despite the need for advice, the current regulatory environment presents a number of impediments for insurers looking to provide advice. These impediments include:

1. Training obligations required by ASIC under RG146 regarding the provision of personal advice are time consuming and costly. These onerous training requirements prevent the commercially viable provision of personal advice in the call centre environment through which more than 75% of General Insurance products are distributed.
2. The provision of personal advice triggers requirements to provide additional compliance documentation such as Financial Services Guides (FSG). This documentation adds to the cost of providing advice.
3. A variety of verbal warnings are required when providing financial advice (e.g. general advice warnings, incomplete/inaccurate information warnings, oral FSG disclosures) which complicate conversations with legal requirements. Insurance conversations are already cluttered with scripted compliance statements and faced with further scripted conversations consumers will simply 'tune out'.
4. It is unclear how regulatory advice obligations apply to general insurers. For example, does the provision of personal advice require the insurer to compare its product to the customer's current product? Insurers would not practically be able to comply with such an obligation.

These impediments have led to the majority of general insurers adopting a 'no advice model' in their respective businesses.

Suncorp is passionate about the value of personal advice and has maintained personal advice models within our niche brands of Apia and Shannons, however the cost implications have been significant. It is Suncorp's opinion that the provision of personal advice is only viable in the relatively unique operating environment of these niche brands. Whilst we are interested in providing personal advice via our mass market brands such as AAMI, GIO and Suncorp Insurance, the current regulatory environment ensures this would be too complex and costly.

Consultants within Suncorp mass market brands frequently express their desire to provide advice to our customers. Both our customers and our staff recognise the wealth of experience and knowledge that an insurance consultant has to offer. Regrettably the 'no advice' model has severely restricted our consultant's ability to share their knowledge with our customers.

Recently the Government has made positive moves to recognise the importance of general insurance advice and has provided an appropriate exemption from increased regulation under Future of Financial Advice (FoFA) reform. Suncorp appreciates this exemption and suggests that the same principal could be applied across the broader financial regulatory landscape to facilitate the provision of personal advice regarding general insurance products.

It is Suncorp's opinion that the provision of personal advice for general insurance would be a significant aid in assisting Australians adapt to climate change. Should the regulatory impediments to the provision of advice be removed, our experienced staff would be able to freely share their knowledge with our customers. This will lead to a better consumer understanding of the risks they face and the insurance options they have to manage that risk.

Barriers and Recommendations – Personal Advice

Barrier 6	Regulatory requirements associated with the provision of personal advice on general insurance products are too onerous to be implemented in the call centre environment. As a result, insurers are prevented from providing valuable advice to their customers that would assist the public adapt to the risks associated with climate change.
Recommendation 8	ASIC be requested to investigate the benefits and risks associated with the provision of personal advice regarding general insurance policies. The findings of this investigation be used by both ASIC and the Government to revise current regulations with the view of enabling the commercially viable provision of personal advice regarding general insurance in the call centre environment.

Chapter 6 – Understanding Risk

Suncorp views that communicating known risks to property owners is a vital step in enabling Australians to be better prepared for climate change and associated extreme weather. Anecdotal evidence heard from many Suncorp customers affected by flood over the summer suggests that a significant number were unaware they lived in a flood prone area. As a result, these customers had insurance with flood cover more so by virtue of a fortunate accident than by way of conscious choice.

It is vital that properties owners be made aware of the risks they face so that they can take appropriate steps to offset that risk. Suncorp has found that a various bodies across all levels of government and industry possess a wealth of information that can be used in determining risks. Information such as aerial photographs, flood maps, bushfire maps, fuel load surveys, weather forecasts and historical event data is commonly kept, but less commonly shared and understood.

Recently, Assistant Treasurer Bill Shorten and Attorney-General Robert McClelland announced funding for Geoscience Australia to develop a centralised flood information portal.¹⁶ Suncorp understands that this flood information portal will utilise the flood information currently being collated by Attorney-General's department. This portal is a positive first step in improving the communication of risk information and is supported by all levels of Government.

Suncorp proposes that the next logical step is to expand the collection and communication of risk information to include other major perils such as storm, storm surge, bushfire and cyclone. The development of a risk database that centralises risk information for a broader range of perils would have a variety of positive outcomes for the community.

These outcomes include:

- Home owners would have easier access to information relevant to their properties. This will enable informed decisions regarding home purchases, mitigation measures and insurance.
- Governments could consider a broader range of information when developing policies such as building codes and land use guidelines.
- Emergency Services Organisations would have better information with which to prepare disaster management plans.
- Insurers would have better access to information with which to develop more accurate risk-based pricing models.
- The collection of risk information regarding lesser understood perils (such as storm surge) could enable insurers to underwrite new risks.
- Other businesses will have the opportunity to consider risk information when developing products and services targeted at supporting climate change adaptation.

Case Study – National Flood Insurance Database enables the provision of flood cover.

In order to provide cover for flood it is essential for insurer's to first understand the level of risk they are agreeing to cover. Information used to determine flood risk such as property elevation levels, flood maps and hydrology reports are commonly developed and maintained at a local government level. This localised approach made it time consuming and costly for national insurers to access the information required to assess flood risk. This was further exacerbated by some governments charging for access and others refusing to provide any access at all.

As a result of difficulty accessing flood information many insurers, including Suncorp, were unable to understand flood risk and therefore excluded cover.

It was not until 2002, after significant time and financial investment by Apia, that an Australian flood database was developed. This database, now known as the National Flood Insurance Database (NFID), has subsequently enabled Suncorp to provide automatic flood cover under our Suncorp Insurance, GIO, Apia and Shannons brands. As a result of automatic flood cover, customers insured under these brands were covered for damage caused by the Brisbane and Ipswich floods earlier this year.

The success of NFID in enabling standard flood cover demonstrates the value that can be obtained by collating and standardising risk information.

Barriers and Recommendations – Understanding Risk

Barrier 7	Risk related information is dispersed and difficult to understand. As a result the public, governments and businesses are often unclear of the risks they each face. Without an understanding of risk, it is impossible to take appropriate steps to manage that risk.
Recommendation 9	That risk related information be collated and standardised at a national level and stored in a risk database. This database should be made publicly accessible to a broad range of stakeholders for use in driving climate change adaptation.

¹⁶ Fixing Flood Insurance, The Hon Bill Shorten MP and Robert McClelland, Joint Press Release, 14/11/2011

Chapter 7 – The unknown

A concern for Suncorp into the future is the unknown affect climate change may have on weather patterns. In recent years Australia has experienced extreme weather events that are unprecedented in terms of both frequency and intensity. As the effects of climate change become more prevalent, it is likely that the insurance industry will continue to be faced with new and changing risks that will be difficult to understand.

As noted in Chapter 6, insurance coverage relies on detailed information (principally historical claims data) to understand and measure risk. The nature of the insurance business makes it necessary to collect significant data with which to predict risk levels. There is a need to be conservative in accepting uncertain risks. To accept a risk without first understanding that risk, could undermine our entire business and, in the worst case scenario, lead to collapse. Furthermore, a detailed understanding of our insurance risk portfolio is required by both the Australian Prudential Regulatory Authority and our international reinsurance partners.

The provision of Insurance cover for new and uncertain cover will undoubtedly become increasingly important as the climate changes. An example of a risk that many insurers do not currently understand (and therefore exclude coverage for) is storm surge. It could be argued that rising sea levels combined with increased cyclonic activity and a general population move to coastal regions will increase the likelihood of storm surge affecting populated areas. The general lack of cover for this event in most home and contents products could leave the community exposed to significant financial loss and have significant consequences for the economy.

Suncorp suggests that assisting and encouraging the insurance industry to understand the new and changing risks associated with climate change will be crucial to guarding the Australian economy against natural disaster. We believe that a government and industry partnership to research new and changing risks would allow insurers to gain a better understanding of how climate change may affect risk models.

An international example of such a research partnership comes from the Climate Change and the Insurance Industry (CCII) research project. CCII partners include Lloyds insurance, the London School of Economics, the Norwegian Computing Centre and Norwegian insurance company Gjensidige. The project research areas include:

- Short and long term prediction of weather related losses
- Tailoring climate predictions to the insurance industry
- Effects of climate change for fish farming and fishery
- Disentanglement of risk factors for weather related losses
- Micro insurance¹⁷

Suncorp suggests that a similar partnership should be formed in Australia. We believe that the Commonwealth Scientific and Industrial Research Organisation (CSIRO) holds a great deal of technical expertise and knowledge that could assist the Insurance industry to better understand the risks associated with climate change. Research into extreme weather events will foster a strong insurance industry and may facilitate the development of products that include cover for currently excluded events such as storm surge.

Suncorp recommends that CSIRO be allocated additional funding to enable partnering with the Insurance industry to undertake advanced research into extreme weather events. Through regular cooperation between insurers and CSIRO Suncorp hopes that we can gain the information required to understand the risks associated with climate change.

This understanding, as explained above, will be crucial in allowing insurers to develop insurance products that are better capable of protecting Australians against the effects of climate change.

Barriers and Recommendations – The Unknown

Barrier 8	The insurance industry principally relies on historical data to underwrite coverage. As the climate changes we face new and unknown risks. Insurers lack the capability to understand these new risks and will require assistance in developing the knowledge required to underwrite cover.
Recommendation 10	That CSIRO be allocated additional funding to enable a partnership with the insurance industry. Specifically, this partnership should enable insurers to freely seek assistance in assessing risks associated with extreme weather and climate change.

¹⁷ Lloyd's joins international research partnership, Lloyd's Insurance Agency, 01/04/2008 available: http://www.lloyds.com/Lloyds/Corporate-Responsibility/Environment/ClimateWise/Our-progress/Lead_in_risk_analysis/Research_2008_CCII

