INSURANCE COUNCIL OF AUSTRALIA

Productivity Commission
Barriers to Effective Climate Change Adaptation
LB2 Collins Street
East Melbourne
Vic 8003
Email : climate-adaptation@pc.gov.au

16 December 2011

Dear Commissioner,

The Insurance Council of Australia Limited (ICA) is pleased to make this submission to the Productivity Commission regarding current barriers to effective climate change adaptation.

Executive Summary

- Adaptation to the impacts of extreme weather should be considered a continual process, involving frequent reassessment of community risks and stepped adjustments to policy settings overtime to ensure that exposure and vulnerability to hazards are maintained in an acceptable range.
- Assisting the community recover from extreme weather is core business for the general insurance industry. Insurers assist by assessing vulnerability, pricing and spreading the risks presented by extreme weather and then meeting claims when they arise. Insurance assists with post-event loss – Insurance does not prevent a loss from occurring but can send a pre-event price signal regarding the level of risk to incentivize adaptation to risk.
- Measures that lower the vulnerability of property to extreme weather, or increase the appetite for community members to improve their resilience to disaster events would be beneficial to adaptation and can be encouraged through regulatory change. This can be achieved through changes to building codes, land-use planning regimes and removal of disincentives to the uptake of insurance such as State based insurance taxes.
- Measures that prevent inappropriate development or mitigate existing risks to property can greatly assist the community to adjust to current and future hazards. Implementing preventative measures to reduce losses and then insuring against the residual low frequency extreme events is the best community policy combination for a sustainable approach to increasing extreme weather – This can be achieved through targeted mitigation infrastructure which will enable more affordable property insurance in areas that presently have high exposures to risk.
- Measures that regularly inform the community regarding the potential hazards they face can positively influence risk based decision making at an individual level. Risk data produced by governments can also assist risk managers (eg Insurers) in helping the community to manage their risks. Regulation should be enacted to ensure this critical transfer of knowledge occurs wherever possible.
- Government should resist all urges to distort the insurance market through intervention, as the price signal generated by insurance products is an unequivocal driver for adaptation. Those at high risk should pay for those risks through higher premiums – Adaptive actions can be incentivized as community members move over time, or actively seek opportunities, to reduce exposures and consequential insurance costs.

About the Insurance Council

The ICA is the representative body of the general insurance industry in Australia.

ICA members represent more than 90% of total premium income written by private sector general insurers. ICA members, both insurers and reinsurers, are a significant part of the Australian financial services system and global insurance market.

The private sector insurance industry generates gross premium revenue of $35.1 billion per annum in Australia and has assets of $113.9 billion. The general insurance industry on average pays out $104 million in claims to policyholders each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance or cover for commercial property and business interruption).

Introductory Comments

In 2010 over 3.3 million insurance claims were lodged by Australian families, individuals and businesses. Many of these claims were as a result of extreme weather impacts on the built environment. Natural disasters during 2011 have helped to generate a national dialogue between industry, governments and to some the extent the community, regarding how Australians can collectively reduce vulnerability to current and future hazards. The general insurance industry is keen to ensure that it performs its role in helping to meet this challenge.

There is a consistent trend in Australia regarding population growth in areas that are prone to natural hazards. Flood plains close to existing towns, coastal areas, urban/bush interfaces are areas increasingly being selected for urban development – if unchecked by appropriate development controls this continual concentration of vulnerabilities will lead to larger catastrophe impacts in the future. Potential climate change related increases in natural disasters combined with the trend towards concentrating vulnerability will only serve to amplify the danger.

The general insurance industry has a natural focus on the impacts of extreme weather and the resilience of the built environment – an increase in the former and a failure of the latter leads to increased levels of damage and loss for the community. From an insurance perspective, the need for adaptation to extreme weather conditions is not a theoretical exercise. Extreme weather events occur now and all too frequently cause damage to an increasingly brittle built environment. In the Australian context, 19 of the 20 largest catastrophe events over the last 40 years were as the result of extreme weather. It follows that the industry supports, as a general principle, any reasonable measures that improve the resilience and durability of the built environment to extreme weather, as well as community and individual adoption of risk management processes such as adequate insurance over their assets.

Importantly, ICA does not view adaptation to extreme weather as a static event, where at some point in the future the community can announce that *adaptation has been achieved*. Adaptation is an ongoing risk management process, requiring persistent and informed policy

improvement that continually drives the assessment of changing risks and tuning of the risk management posture of the community.

To achieve this, there are a number of regulatory processes and approaches that should be adjusted, so that market and community forces can continually adapt to current and future risk profiles.

Insurance – Measuring risk, assisting recovery and signaling a need for adaptation

The general insurance industry provides financial risk offset and recovery services for Australian families, individuals and businesses – calculating the probabilities of damage, offering insurance cover[1] and then compensation when damage occurs.

Importantly, private insurance mechanisms also produce a price signal or financial incentive that can motivate adaptive activity to reduce exposures. Where exposures increase beyond the commercial appetite of global insurance markets to provide cover, a critical price signal is delivered. In these extreme cases those in the community who face an 'uninsurable' risk are forced to adapt by absorbing the risk potential within their own finances (self-insurance), or by undertaking risk mitigation activity to reduce exposures – move locations, mitigate the risk, or modify built structures to increase resilience.

The ICA believes that this review presents Federal and State governments with a critical opportunity to ensure Australian families, individuals and businesses have a future built environment that is resilient and durable to weather related risks. The alternative, a continuation of the status-quo, is that the community will continue to rely socially and economically upon a built environment that all too often proves to be vulnerable to everyday risks.

There are other regulatory issues that serve to inhibit the adaptive role insurance plays in assisting the community to recover from extreme weather events. For example, the imposition of taxes on general insurance products, to varying degrees in each state, serves as a pricing disincentive on the uptake of essential cover.

From a general insurance perspective there are 5 areas where changes to government policy could assist the community to be better prepared for existing and future extreme weather:

1. Preserving the value of insurance as a price signal to drive adaptation.
2. Modernisation of the Building Code of Australia.
3. Harmonisation of land-use planning criteria and supporting risk information.
4. Improvement of mitigation planning and funding processes.
5. Removal of tax impositions.

[1] For insurable events

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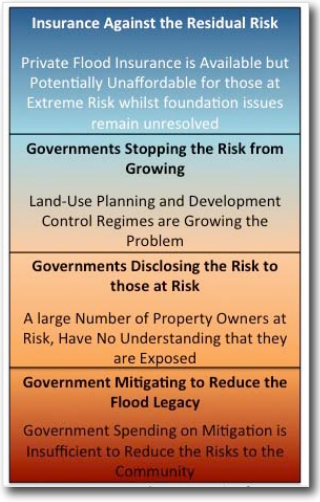
PRESERVING & ACKNOWLEDGING INSURANCE MECHANISMS AS A PRICE SIGNAL TO ENCOURAGE ADAPTIVE BEHAVIOUR



Insurance policies are intended to address residual risk to the community, after appropriate steps have been taken to reduce community hazards. On this basis insurance can been seen as operating at the top of the risk spectrum, once all appropriate mitigation actions have been undertaken to prevent, avoid and reduce hazards and community exposure.

The premium charged for risk cover provides a *canary in the coalmine* indicator of the acceptability of residual risks faced by members of the community (the policyholder).

Where the built environment is exposed to high levels of residual risk due to poor land-use planning, inappropriate development controls and hazards that remain unmitigated, an insurance price signal through higher premiums can serve to motivate an adaptive action.

This view has also been highlighted in the *Issues Paper (p16)*:

> "Insurance can be an efficient way to adapt to climate change by spreading risks to those most willing to bear them. It can also create financial incentives to reduce exposure to hazards, which will be most efficient when insurers can match premiums closely to the risks faced by individual customers."

However, where insurance premium increases occur to match high or extreme risks there can be temptation for governments to intervene and to modify or regulate price.

This might occur through the provision of subsidised insurance, through the capping of premium rates or by otherwise pressuring the private market to artificially retard premiums below the technically correct price – All in the interest of preserving a communities status-quo and access to 'affordable' insurance protection.

Such intervention distorts the signals provided by the insurance market and can lead to a failure to adapt to hazards.

Flood risks provide a contemporary example of how market distortions could influence a poor community response to managing risks. Should private insurance premiums for flood risks in an area become unaffordable or unavailable, government may elect, as they have in some international jurisdictions, to provide subsidisation for insurance products that lower premiums payable by their flood prone constituents.

Such actions can ultimately encourage further inappropriate development of flood-prone land – as there is little downside and no financial cost. Perversely this increases the exposure of the community rather than assisting with difficult structural adjustments that may be more beneficial in the long term.

The ICA believes that the issues paper has correctly identified the best approach with regard to insurance and community adaptation to risk – that governments should facilitate the correct pricing of risk through the provision of accurate risk mapping, for example flood maps, bushfire maps etc.

There are a nexus of additional benefits to this approach beyond preserving a clear price signal about risk taking behaviour, including:

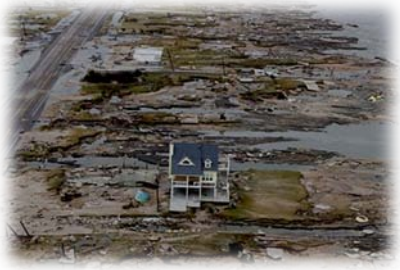
- Creating an informed community who will be more able to make appropriate decisions regarding the built environment; and
- Enabling the insurance market to provide more finely tuned insurance products and in some instances new products where an absence of credible risk data had previously prevented a market from developing a product.

The ICA submits that governments should continue to resist urges to distort the insurance market through intervention, as the price signal generated by insurance products is a driver for adaptation. Those at high risk should pay for those risks through higher premiums – Adaptive actions can be incentivized as community members move over time, or actively seek opportunities, to reduce exposures and consequential insurance costs.

MODERNISATION OF THE BUILDING CODE OF AUSTRALIA

The Building Code of Australia (BCA) promotes a strong and effective building industry that carries out construction of the built environment within a framework of building principles.

The principles of the BCA are enshrined in an Inter-Governmental Agreement (IGA) between the State and Territories. The principles include a need to meet requirements for Safety, Sustainability, Amenity and Performance.



A well designed property survives Hurricane Ike (2008) in Texas, where several hundred other homes have been destroyed - With the right building codes and controls in place development in risk prone areas is possible.

However, unlike the building codes of some other developed nations, the BCA does not include a specific principle for property durability. The BCA therefore permits the construction of buildings (at a minimum standard) that include no element of durability (property protection), creating a stock of buildings that whilst ‘safe’ are increasingly brittle to extreme weather events – sustaining avoidable damage to everyday hazards.

Members of the ICA in their dealings with their clients, have identified that there are strong expectations from individual and business policyholders that existing buildings have been built to a standard that not only ensures individual life safety, but also the survivability of their most important assets, that is the building itself. Furthermore, the expectation is that building standards into the future will acclimatise to ensure that their assets are adaptively resilient to the increasing range and depth of extreme weather events projected under climate change, for example more intense hail, storm and inundation activity.

Overtime, insurers have proposed amendments to the BCA to address critical vulnerabilities observed in the durability of built environment. For example, a lack of adequate fire protection in certain types of buildings such as retirement homes or high hazard facilities. Initiatives have often been rejected on the grounds that they relate to protection of the property, which is not a goal of the BCA.

BCA stakeholders appear to believe that they are prevented by the IGA from considering any matters that increase the durability of the built environment. For example, post the 2010/11 floods the BCA has commenced development of a document describing how properties should be constructed in a flood prone area. This guideline only seeks to ensure that flood prone properties are structurally sound, to ensure that life safety can be maintained. The BCA process does not address the durability of the property. The end result will be a flood prone property that whilst structurally sound, will still be effectively destroyed by flood water ingress or rendered unfit for habitation – this vulnerability will continue to be reflected through high premiums for insurance.

The Insurance Council has undertaken a review of the 2006 IGA that forms the foundation for operation of the Australian Building Codes Board (ABCB).

The Insurance Council's review identified that the 2006 IGA:

- Does not explicitly prohibit consideration of fundamental property durability measures by the ABCB.
- Includes 'performance' of the building as a fundamental consideration for the ABCB in determining minimum requirements.
- Includes 'sustainability' of the building as a fundamental consideration for the ABCB in determining minimum requirements.
- Requires that the ABCB develop codes and standards that accord with the strategic priorities established by Ministers from time to time, having regard to societal needs and expectations.
- Requires that the BCA generate net benefits for the community greater than the costs and potential regulatory impacts.

The ICA recommends that the Productivity Commission consider the adaptation benefits that arise from the operation of a building code that requires property to be constructed in a durable fashion, through amendments to the IGA that:

- Define the 'performance' of a building to include its resilience to extreme weather events and hazards anticipated under a worsening climate, in consultation with relevant scientific bodies.
- Define 'sustainability' in the IGA to include the environmental, economic and societal sustainability of a building, including considerations of its total loss or loss of amenity on the community.
- Identify that reasonable protection of the built environment (assets) via the BCA is an important strategic priority that accords with societal needs and expectations.

Importantly, including the concept of resilience or durability within the existing framework of 'sustainability' and 'performance' in the BCA will not only meet current community expectations, it will serve to provide a net benefit to Australia's economic strength well into the future. By establishing this as a threshold requirement in the BCA, cost effective market solutions can be expected to develop and to adapt to changing risk conditions over time.

ICA believes that regulators of the BCA could, in the interest of creating an adaptive built environment, be required to broaden their current understanding of the terms of the BCA to include life-cycle durability considerations. In the alternative, the IGA should be amended to include a minimum and specific performance requirement for durability of property to hazards both present and predicted over the lifespan of the property, to the extent that following a natural hazard occurring, the property remains useable for its registered purpose.

Noting the failure of the Australian BCA to address durability and resilience - The general insurance industry is presently developing a resilience rating system for property to incentivize durability.

The resilience rating tool will allow property owners to analyse the vulnerabilities of their property to known hazards and to determine if there are steps that can be taken to improve the properties durability. The allocation of a 'resilience rating' to the property and the eventual use of the rating as a commodity, as a demonstration of additional value in the property, may assist in filling the void created by the absence of appropriate building codes to protect the building. Insurers may also be able to make use of the rating as additional underwriting data, rewarding those with higher resilience with lower premiums.

RISK APPROPRIATE LAND-USE PLANNING & COMMUNITY RISK INFORMATION

Risk appropriate use of land is a critical issue in Australia. Getting land-use planning decisions right is entirely dependent upon the development of information on current and future hazards.

Consenting to the right type of development on risk prone land and ensuring that appropriate controls are in place is the first step in adapting to current and future risk

With some exceptions, during the past decade governments have generally moved to enhance land-use planning guidance and regimes. This is despite the perennial tension that exists between the need to open new land for residential development and the need to do so in a sustainable, safe and low cost manner.

In the majority of instances, state governments have issued high level parameters for local governments to include in local planning and development schemes. The high level parameters offer broad development principles for local bodies to enshrine in decisions regarding what is, or is not, an appropriate development in the local area.

The results of poor land-use planning and decisions are now, with some very notable exceptions, legacy issues. There are examples across the country of legacy developments that have occurred in a "risk inappropriate" fashion. For example, many insurers consider properties in certain areas of the Gold Coast to be at extreme risk of catastrophic flooding and coastal inundation. The Gold Coast is by no means the only area where this is a known issue. Properties flooded in the 2010/11 flood season, in both Queensland and Victoria, were for the most part known to be at increased levels of risk according to government flood maps.

There are good examples of strategic land-use planning in Australia that serve as a blueprint for future adaptation. The implementation of mandatory cyclone building controls in historic cyclone prone areas has seen a dramatic decrease in the damage sustained (to newer properties) from that hazard. The same process would be applicable to other hazards in Australia.

The predicted impacts of future extreme weather events underscore the need for a renewed focus and emphasis on risk appropriate selection of land for development. With many of the current risks predicted to increase over the accepted life-cycle of a man-made structure, it is necessary for governments to ensure that new structures are constructed in a location and manner suitable both to the risks experienced today at that location and those risks predicted at the anticipated end of life for the property.

The following development guidance is considered critical:

- A Minimum Development Standard for Riverine Flooding Risks – Modern rainfall models indicate a strong potential for a drier average climate with greater peak events. Greater peak rainfall events will lead to increased occurrences of flooding in the community as traditional floodwater mitigation and drainage systems fail to cope with larger events.
- The potential nexus between increased sea levels and increased peak rainfall events further underscore the need for greater attention to be paid to land-use selection under a changed climate, these might include considerations such as restricting future development in flood prone locations without strict development controls in place to reduce the flood exposure to acceptable levels.
- Wind Storm & Cyclones – Under some climate change scenarios, the CSIRO has predicted that cyclone activity may decrease overall by up to 44% in some areas of Australia. However, the number of extreme cyclone events (Category 3-5) is expected to increase. That is, there will be a higher percentage of more destructive and longer duration cyclone events.
- Furthermore, the average decay location of cyclones is predicted to move southwards by up to 3^0 of Latitude giving rise to consideration that the geographic extent of mandatory cyclone resistant building standards described by the Building Code of Australia and relevant Australian Standards should be extended to cover land-use and development further south than the present limit.

The provision of risk data by government is key to achieving a lasting adaptive approach by the market and the community. For example, individual awareness of exposure to flood risk at a specific property can clearly have a powerful influence on what actions the property owner will take in order to adapt to the risk.

To ensure that specific information about flood risk (or other hazards) is available to home owners and tenants, policy changes should be made at a national level to require the proper disclosure of known risks within populated areas of Australia by local authorities.

In the example of flood, bushfire and cyclone risks, this could be achieved by requiring that local government rate notices include a statement of risk, based on a transparent nationally consistent categorisation of that risk. Provision of this information in a regular and effective manner, will ensure that an appreciation of individual property risk is continually reinforced.

Information about risks may assist the community to prioritise risk management. In some cases a failure to insure may not be a question of affordability, but simply a failure to recognise risk and to prioritise risk management. Insurance products are often prioritised below other discretionary household expenditure.

The table below was produced by the ICA drawing from data from the Australian Bureau of Statistics Household Expenditure Survey, for the various income groups in Queensland:

ABS2003/04 Household Expenditure in Queensland on Insurance Vs Other Discretionary Items as proportion of household income							
Income Quintile	Pay TV	Take-Away	Fresh Food	Alcohol & Tobacco	Gambling	Contents Insurance	Building Insurance
1st	6.6%	4.1%	6.2%	4.9%	3.1%	1.7%	2.1%
2nd	2.3%	2.9%	4.0%	4.5%	2.5%	1.0%	1.6%
3rd	1.6%	2.8%	2.5%	3.7%	0.0%	0.7%	0.6%
4th	1.1%	2.6%	1.9%	3.2%	0.6%	0.5%	0.5%
5th	0.7%	1.9%	1.4%	2.1%	1.3%	0.3%	0.3%

From this table, it can be seen that for all income groups in Queensland, **expenditure on insurance is prioritized below spending on other household goods and services such as subscription television, spending on alcohol and tobacco** and spending on food purchased outside the home.

MITIGATION AS INFRASTRUCTURE - APPROPRIATE MITIGATION MEASURES TO REDUCE HAZARDS

Mitigation to reduce community hazards to manageable or safe levels can, in the right circumstances, be the most cost effective approach to protecting communities.

Well-planned mitigation, operated correctly, can reduce risks to particular hazards with large returns on investment possible.

Insurers have known for some time that the provision of well conceived and targeted mitigation can lead to an acute reduction in the level of risk faced by a community. Insurers often use the presence (or absence) of local mitigation efforts to rate the risk to properties. One example, quoted by the Federal AG[2] during a recent speech, is the construction of flood mitigation levees in and around Lismore in NSW. The levee was constructed for a cost of $19 million and during a single subsequent flood event (2005) prevented in excess of $15 million worth of community damage. Insurance claims in the region show that the same flooding was largely prevented again in 2007 and 2010. The return on investment for mitigation can often be expressed in multiples over a short return period.

In Australia the *National Disaster Mitigation Program* provides an application and funding mechanism for mitigation projects aimed at reducing community exposure to natural hazards.

For approved projects the program provides 1/3rd of funding from a federal fund and typically requires 1/3rd funding from both the state and the affected local government respectively. Projects are prioritised intrastate by relevant state planning bodies with assistance from applicant local governments.

[2] Attorney-General, Hon Robert McClelland MP Mayo Lecture James Cook University, Townsville, 6 October 2011, p. 4

Mitigation projects in the context of the program include:

- Natural disaster risk management studies;
- Disaster mitigation strategies;
- Investment in disaster resilient public infrastructure
- Structural works to protect against damage (eg. disaster proofing of existing buildings at risk; levees, retarding basins and channel improvements, permanent fire breaks, other engineered works that offer protection from natural disasters);
- Disaster warning systems;
- Community awareness and readiness measures;
- Audits of levees and warning systems;
- Disaster and mitigation related research of public benefits;
- Development of nationally consistent data collection and analysis;
- Development of nationally consistent post-disaster evaluations;
- Geographic Information Systems (GIS) based hazard and flood data for disaster mitigation purposes; and
- Land and building purchase schemes in high-risk areas.

The current objectives of the mitigation program remain generally appropriate but its community relevance under climate change predictions will increase in direct proportion to the gravity of predicted climate change induced hazards.

There is one notable and critical omission from the list of program objectives – stormwater mitigation and drainage works.

It is the view of the ICA that urgent consideration needs to be given to expanding the program to include projects that are aimed at replacing or upgrading critical stormwater mitigation works in communities. The failure or inadequacy of public stormwater mitigation accounts for approximately 1/3rd of water damage experienced by private property owners during large rainfall events.

Federal funding for the mitigation program has remained relatively static for the previous 3 years at approximately $20mil per annum. Under each of the various climate change scenarios it is increasingly clear that there will be greater funding calls upon each available component of the mitigation program, in particular the more expensive classes such as resilient public infrastructure and structural mitigation works.

Further, it is conceivable that individual projects designed to combat climate change induced hazards will increase in complexity and expense in proportion to growth in demand for hazard controls and the nature of the hazards. It follows that funding will become a growing challenge that may outstrip present funding rates and the ability of some partners to the program to effectively contribute.

It is recommended that COAG urgently undertake a review of present funding levels and arrangements for the *National Disaster Mitigation Program* with a view to adapting funding levels and mechanisms to suit the nature of the increasing hazard. It is important to note that many public infrastructure and structural hazard mitigation projects take years to design and construct and therefore must be commenced well in advance of the hazard becoming an acute issue.

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REMOVING TAXATION DISINCENTIVES TO THE UPTAKE OF INSURANCE

The level of insurance within a community and the incidence of non-insurance and underinsurance are key matters for communities in their recovery from extreme weather events.

The rate of non-insurance and under-insurance will have an impact on the financial ability of communities affected by extreme weather to be resilient and to re-build. The level of non-insurance is a particular concern of the insurance industry.

To help address this concern, in 2007 the Insurance Council commissioned an analysis of non-insurance from Dr Richard Tooth and Dr George Barker Centre of Law and Economics.

The significant findings of this report were that:

1 Affordability is a significant constraint on insurance and that State taxes impact on insurance affordability and in turn, non insurance;
2 Home type and tenure are critical drivers of non insurance for both buildings and contents cover although demand for contents insurance appears to be more price sensitive than building insurance;
3 Non insurance is lower for those with a mortgage than those without, although non insurance escalates the longer the age of the homeowner's mortgage;
4 Disconcertingly, those individuals with fewer savings (and hence those more vulnerable to loss) are also more likely to be non insured;
5 Non insurance is more prevalent at the early stages of life (that is for singles and the young); and
6 Non insurance is more prevalent in urban centres and in particular, specific urban localities in our major capitals.

In October 2008, the Insurance Council published a study called "Non Insurance in the Small to Medium Size Enterprise Sector".

The key findings from that report were:

1 26% of all small to medium sized enterprises (SMEs) do not have any form of general insurance.
2 Sole traders have the highest rate of non-insurance with 40.0% operating their business with no general insurance.
3 Of the SMEs that purchase general insurance, 94.0% indicated they considered that they were adequately insured. Taken together with the rate of non-insurance, this means that under two thirds of all SMEs have adequate insurance.
4 Over 80% of SMEs who indicated that they were inadequately insured sighted the cost of insurance as a barrier to purchasing. Reform of taxation on general insurance products would therefore reduce the cost burden to SMEs and contribute to a reduction in the incidence of non-insurance amongst SMEs.
5 For the majority of small businesses, profit expectations do not appear to impact on planned insurance coverage, at least in the short term. 50.0% of respondents indicated they would leave their insurance coverage unchanged despite the expected change in profits over the coming year.

The ICA has been a strong advocate for improved State taxation bases and State taxation reform that sees State revenue dependency shift from transaction style taxes (for example insurance) towards those State taxes that are more efficient. The ICA has also argued that

there is a clear social and economic case for eliminating or at least reducing State insurance taxes and charges as a priority in any reform of Australia's taxation system. This argument is based on recognition of the essential benefits of insurance to the economy and community generally and of the role of the tax system in encouraging insurance coverage.

A number of independent reviews and inquiries have recommended insurance tax reform as a priority for State taxation reform. For example, the IPART Review of State Taxes (2008), the Henry Tax Review (2009), the Victorian Bushfire Royal Commission (2009), and the Johnson Report into Australia as a Financial Centre Forum (2009) as well as the Treasury Brief - Red Book (2010) have all recommended a shift away from State transaction taxes (such as stamp duties on insurance) towards State taxes of a more efficient and durable basis.

The ICA concurs with these reviews and at the Commonwealth Tax Forum held in October 2012, strongly advocated that the Commonwealth and the States develop a path forward to State taxation reform. In that regard, it is noted that Federal Treasurer announced at the conclusion of the Forum that the States of NSW and Queensland would collaborate on the development of a plan that pursues State tax harmonization and reform, with this plan being submitted to COAG by 2012. The ICA suggests that this plan and the subsequent discussion at COAG offers the most expeditious path to reforming State insurance taxes and in that regard, would welcome the support of the Productivity Commission in urging the States and Commonwealth in abolishing insurance taxes as the priority for State taxation reform.

CONCLUSION

Insurance cannot prevent the loss but can send a pre-event price signal regarding the level of risk which may serve as an incentive for community members to mitigate the risk. Insurers are deeply supportive of practical adaptation to the impacts of extreme weather.

Measures that lower the vulnerability of property to extreme weather, or increase the appetite for community members to increase their resilience to disaster events would be beneficial to adaptation and can be encouraged through regulatory change. This can be achieved through changes to building codes, land-use planning and removal of disincentives to the uptake of insurance such as State based insurance taxes.

Measures that prevent inappropriate development or mitigate existing risks to property can greatly assist the community to adjust to current and future hazards. Implementing preventative measures to reduce losses and then insuring against low frequency extreme events is the best community policy combination – This can be achieved through targeted mitigation infrastructure which will enable more affordable property insurance in areas that presently have high exposures to risk.

Government should resist all urges to distort the insurance market through intervention, as the price signal generated by insurance products is an unequivocal driver for adaptation. Those at high risk should pay for those risks through higher premiums – Adaptive actions can be incentivized as community members move over time, or actively seek opportunities, to reduce exposures and consequential insurance costs.

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The ICA is more than happy to elaborate on this submission should it be required to do so. For further information on the submission, please feel free to contact Mr Karl Sullivan, General Manager, Policy Risk & Disaster Planning on (02) 9253 5155 or ksullivan@insurancecouncil.com.au

Yours sincerely

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