

Productivity Commission
Barriers to Effective Climate Change Adaptation
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Dear Commissioner,

The Insurance Council of Australia Limited (ICA) welcomes the opportunity to provide a response to the *Productivity Commission Draft Report on Barriers to Effective Climate Change Adaptation* released in April 2012.

Introduction

As the ICA has previously submitted, community adaptation to the impacts of extreme weather should be considered a national priority.

General insurers remain focused on extreme weather as a major driver of community loss. Assisting communities to recover from peak events is the principal business of the insurance industry. Insurers assist the community by assessing vulnerability, pricing and spreading the risks presented by extreme weather and then meeting claims when they arise. Importantly, 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 that risk. The ICA notes the Productivity Commission's draft findings that underline this point.

Insurers remain well placed to understand the impacts of extreme weather and the measures that can be undertaken to reduce individual and community vulnerability. Adaptation to weather risks can not be achieved through a single step, it is 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. As has been identified in the draft findings, adaptation 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.

Additionally, the ICA resubmits that a core component of any adaptation strategy must be the implementation of targeted mitigation infrastructure, to protect communities and to enable more affordable property insurance in areas that presently have high exposures to risk.

For example, given the extent of repetitive community loss to flood, it can be argued that disaster mitigation funding and processes in Australia are not robust and are failing to protect the community. International reinsurance adjustments, significantly increasing the cost of reinsurance cover for Australian insurers, has been driven in part by growing exposures created by a government failure to mitigate risks. This has led to significant premium increases for many in the community and in some instances has reduced the capacity of the private insurance market to offer cover.

Just as governments should undertake programs to mitigate community risks, it is equally important that those communities understand the risks they face. Measures that regularly

inform the community regarding potential hazards, can positively influence decision making and adaptation at an individual level. The ICA repeats its submission that appropriate regulation should be enacted at Federal and State Government levels to ensure that this critical transfer of knowledge occurs wherever possible.

The ICA strongly supports the concept that governments should not intervene in insurance markets to the extent that distortion occurs. The price signal generated by insurance products is an unequivocal driver for adaptation. Those in the community at high risk should pay for those risks through higher premiums – Those that adapt to hazards by reducing vulnerability or exposure should see a reflection of those lower risks through lower relative premiums.

Response to Draft Recommendations

ICA notes the Productivity Commission's draft recommendations and provides the following submissions in respect of each item:

Draft Recommendation 4.1 – Assessing reforms and setting priorities

The ICA supports the general principle that a risk management approach to adaptation reform, incorporating a net benefit analysis, is an appropriate approach to setting adaptation priorities.

The ICA submits that the general insurance industry is an appropriate partner with whom governments could consult regarding the prioritization of mitigation infrastructure and other measures that would assist the community to reduce exposure to extreme weather hazards.

The ICA would support a recommendation to establish a joint industry & government mitigation taskforce to assess extreme weather adaptation priorities.

Draft Recommendation 5.1 – Building Adaptive Capacity

The ICA supports the draft recommendation.

Draft Recommendation 6.1 – Information Provision

The ICA supports the draft recommendation and notes that the industry is continuing to participate in dialogue with the Commonwealth on this initiative.

Draft Recommendation 7.1, 7.2 – Local Government

The ICA supports the draft recommendations. The ICA further submits that it is local governments who, under present planning systems, bear the primary risks associated with development controls, as well as adverse community impacts when and where those controls fail to prevent disasters.

A systemic approach to supporting local governments with toolsets, legislative guidance, appropriate funding and nationally consistent datasets, must be implemented in order to drive adaptation to extreme weather impacts in a coherent manner.

The ICA would welcome an opportunity to participate in this dialogue further, in an effort to assist local government with these challenges.

Draft Recommendations 8.1, 8.2, 8.3 – Planning and Building Regulation

The ICA supports the draft recommendations. The ICA suggests that community consultation to gauge expectations regarding the performance of the Australian Building Code/National Construction Code, should be undertaken by an independent body as soon as possible.

The ICA's own experience is that there is a considerable gap between the community's expectations of property durability and the minimum standards of protection that the BCA provides. This gap is caused by the limited approach to building codes enshrined in the current inter-governmental agreement (IGA).

Following an assessment from an independent reviewer, ICA submits that the *COAG Building Ministers Forum*, in concert with the *COAG Select Council on Climate Change*, should consider amending the IGA to mandate building codes that address resilience to extreme weather.

Ensuring that property is constructed in a resilient manner, preventing unnecessary damage during extreme weather, is a fundamental step towards reducing community exposures to the economic risks under climate change by ensuring that relevant residual risks can be insured.

Draft Recommendation 10.1 – Emergency Management

The ICA supports the draft recommendation and would welcome an opportunity to make relevant submissions to the review of the National Partnership Agreement.

A fundamental review of the current arrangements is required in order to link recovery efforts with the National Strategy for Disaster Resilience released by COAG in 2011.

For example, stronger links are required between rebuilding actions undertaken and *betterment provisions* in order to reduce the likelihood of repeat failure of infrastructure. Betterment provisions in the current scheme appear to be infrequently used, leading to a situation where much of the infrastructure replaced following the QLD and VIC floods of 2011 is unimproved and will fail again during future floods of a similar magnitude.

Whilst recovery from disaster is an important community priority, the ICA submits that the current focus on recovery funding attenuates attention on a more obvious issue that should have primacy – mitigation to reduce or remove community exposures to these hazards in the first instance. As the ICA has already submitted, a review of government expenditure on mitigation in any given year will reveal that payments made for recovery activity exceed mitigation funding by many orders of magnitude.

The ICA would strongly support a recommendation that government should conduct a top down review of the approach to disaster mitigation with a view to achieving a safer, more sustainable and affordable outcome for community adaptation to these risks. The ICA would welcome an opportunity to participate in such a review.

Draft Recommendations 12.1, 12.2, 12.3 – The Role of Insurance

The ICA supports the draft recommendations and in particular notes that:

- 12.1 The Productivity Commission's draft recommendation for the removal of taxation imposts on general insurance follows similar findings from an extensive list of reviews, inquiries and commissions in the past. The recent decision of the ACT government to remove all taxes on insurance products, is an example that should be considered by other jurisdictions.
- 12.2 The ICA supports the concept that a regulatory direction to mandatorily provide the community with any class of insurance product should only be conducted after all potential consequences and net benefits have been examined. The ICA reiterates that issues of insurance affordability for some segments of the community are being exacerbated by a failure to mitigate hazards, improve building codes and to correct failures of land-use planning.

Narrowing the communities choice of insurance product, whilst leaving the primary drivers of risk untouched, has the potential to cause a significant non-insurance and under-insurance problem, as communities struggle to pay for the risks that should have been mitigated through better government mitigation, land-use and building code policy.

- 12.3 A long term artificial or forced reduction in risk premiums, payable by those exposed to risk, would not serve the community well. Without 'paying the price' individuals will not be stimulated to make better decisions about risk into the future.

However, as the ICA has submitted previously, there is a long standing failure of governments to manage these community risks in all cases.

Consequently, there is a considerable legacy problem to be addressed where vulnerable members of the community have been placed in harms way due to a lack of integrated government mitigation, land-use and building code policy.

The ICA submits that short-term targeted subsidies for insurance premiums, payable by governments directly to those individuals facing the highest risks and who lack the capacity to adapt quickly, is a measure worth considering, but only as an interim step whilst mitigation is undertaken to remove or reduce the present risks.

Draft Recommendation 13.1 – Reform Priorities

The ICA supports the draft recommendation.

Response to Information Requests

ICA notes the Productivity Commissions information requests and provides the following submissions in respect of each item:

Information Request 6.1 – Hazard Risk Information

The ICA supports the use of title documents, property certificates, rates notices and tenancy agreements as one avenue for formally disclosing local hazard information to current and future occupants of a dwelling. However, it must be carried out in a nationally consistent manner so as to afford every possible opportunity for members of the community to seek out, be exposed to and to understand the hazard information.

The ICA further submits that these mechanisms should be complemented by a consistent approach to community level risk disclosure through use of web based tools, community signposting and household markers in extreme risks locations.

The consideration and coordination of a national approach to community risk disclosure is a task that should be adopted by COAG as a national priority. The approach should include considerations from emergency services, local government, building authorities, industry and community groups.

The ICA would support a recommendation from the Productivity Commission that COAG should consider such a project and would welcome the opportunity to participate.

Information Request 7.1 – Local Government Legal Liability

The ICA supports reasonable measures to limit the liability of local authorities in regard to planning decisions associated with the uncertainty of climate change.

To assist with the uncertainty, the ICA reiterates previous submissions that a nationally consistent set of agreed and endorsed climate projections is urgently required and should be accompanied with best practice planning principles to be adopted by all jurisdictions.

Information Requests 8.1, 8.2, 8.3 – Planning and Building Regulation

The ICA has previously identified failings in the scope of the current inter-governmental agreement (IGA) on the Building Code of Australia.

The ICA provided submissions to the 2008 review of the IGA, the outcomes of which remain unclear.

Modernisation of the Building Code of Australia, to incorporate resilience to extreme weather, remains a critical rung in the climb towards a better prepared community.

Relevant submissions made to the 2008 review are attached for information.

In lieu of government adoption of the building code as a mechanism to drive resilience in the community, the general insurance industry has commenced a project designed to produce property specific vulnerability ratings as a measure to encourage community adoption of more appropriate building design standards, materials and methods. Whilst this mechanism can not replace government regulation as a method

for driving increased resilience, it is believed that incremental change can be achieved within more informed segments of the community.

The Building Resilience Rating project aims to develop a tool that allows property owners, developers, architects etc, to calculate the relative merits of using different building materials, methods and designs to reduce the potential for damage as the result of extreme weather.

Given appropriate access to hazard mapping, it is conceivable that the tool could be used to link (through a rating) the resilience of a building to its insurability within the context of the hazards at that location and to therefore motivate a behavioral change in the community towards building standards that lower the incidence and severity of claims overtime - Ultimately, reducing the brittleness of the built environment in the face of extreme weather events.

The ICA would welcome opportunities to involve governments in this initiative.

CONCLUSION

The Commission's draft findings acknowledge the reality that the purchase of insurance cannot prevent property loss but can send a pre-event price signal regarding the level of risk which may serve as a stimulus for community members to mitigate and adapt to the risk.

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

Measures that prevent inappropriate development or mitigate existing risks to property can greatly assist the community to accommodate current and future hazards.

Clearly, implementing preventative measures to reduce general losses and then insuring against low frequency but extreme events, is the best 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.

The ICA supports the draft findings of the Productivity Commission, and most notably that 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 climate change adaptation.

Yours sincerely

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