INSURANCE COUNCIL OF AUSTRALIA

October 21, 2014

Natural Disaster Funding Arrangements
Productivity Commission
LB2 Collins Street East
Melbourne Vic 8003

By email: disaster.funding@pc.gov.au

## RESPONSE TO THE PRODUCTIVITY COMMISSION DRAFT REVIEW OF NATURAL DISASTER FUNDING ARRANGEMENTS

The Insurance Council of Australia (ICA) welcomes the opportunity to provide a response to the draft recommendations contained in the Productivity Commission's draft report *Natural Disaster Funding Arrangements*, released on September 25, 2014.

The ICA would welcome an opportunity to engage with the Productivity Commission (the Commission) on these matters. The ICA stands ready to respond to any request for further engagement.

**Executive Summary**

The relative imbalance between funding for disaster response activities compared with disaster mitigation through mitigation activities is a longstanding economic failure in Australia. Correction of this imbalance, in a manner that incentivises a systemic approach to reducing existing community exposures and preventing future planning mistakes, should be a national priority.

General insurance has a significant role to play in this crucial transition. Insurance products transparently price risk and offer protection to community member for the risks they wish to have covered. Insurers continually improve the products and tools they offer to provide protection and to assist with the transition to a safer community.

Closer alignment between the price signals delivered by general insurance and authoritative government exposure data and programs to reduce those exposures would assist all stakeholders to understand and adapt to risk. This is possible through the formation of closer partnerships with governments.

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Comments regarding specific draft recommendations, findings and requests for further information are as follows:

***Draft Recommendation 3.2***
***If the Australian Government reduces the relief and recovery funding it provides to state and territory governments, it should increase annual mitigation expenditure gradually to $200 million, distributed to the states and territories on a per capita basis. The amount of mitigation spending could be adjusted over time to reflect the imputed 'savings' from reduced relief and recovery funding.***

***Increased mitigation funding should be conditional on matched funding contributions from the states and territories and best practice institutional and governance arrangements for identifying and selecting mitigation projects. These would include:***

- ***project proposals that are supported by robust and transparent evaluations (including cost–benefit analysis and assessment of non quantifiable impacts), consistent with National Emergency Risk Assessment Guidelines risk assessments and long- term asset management plans, and subject to public consultation and public disclosure of analysis and decisions***
- ***considering all alternative or complementary mitigation options (including both structural and non- structural measures)***
- ***using private funding sources where it is feasible and efficient to do so (including charging beneficiaries)***
- ***partnering with insurers to encourage take- up of adequate private insurance and private mitigation through measures such as improved information sharing and reduced premiums.***

The ICA welcomes the recommendation that the Australian Government's expenditure on mitigation should be increased in this manner. It believes funding should be matched by respective states and territory governments.

The ICA suggests the allocation of mitigation funding should be undertaken on a project-by-project basis, with funding priorities determined by (in large part) the benefits that will be accrued by the local population through reduced exposure to hazards.

The mitigation benefits that a community receives can be measured in many ways, including improved safety and economic stability through lower rates of disruption. However, perhaps the most significant measure (apart from community safety and protection) is how the price signal for private market insurance would be altered by properly functioning mitigation.

Disaster losses over the past 40 years consistently demonstrate that Queensland incurs greater natural disaster losses than other jurisdictions. This imbalance is reflected in insurance price signals. By way of example, current ICA policy data collected at postcode level across Australia confirms that the most costly postcode for home building insurance is in Queensland, in a location where a significant flood and cyclone exposure exists. The least expensive postcode for home building insurance is in southern New South Wales in a postcode with few hazard exposures.

A variety of factors exacerbate disaster losses in Queensland beyond hazard frequency and intensity. The most important one is a consistent absence of permanent physical mitigation and, in many areas, building codes that fall short of providing property protection. On this

basis it could be argued that in terms of the macro level of funding distribution, Queensland should receive a higher share than less-exposed states and territories.

The ICA submits that once the macro level of mitigation funding allocation between states and territories is determined, a key consideration in the prioritisation of specific mitigation projects within a jurisdiction should be the potential reduction of insurance premiums for exposed individuals. Potential reductions in premiums resonates with the public, ensuring that communities who ultimately fund mitigation through their taxes, rates and levees can see the impact it has on their insurance bills.

The general insurance sector has expertise in valuing pre-mitigation and post-mitigation exposures. It can (given the establishment of a partnership with those governments considering mitigation projects) provide input to the cost-benefit analysis for proposed mitigation options.

However, this process must be streamlined, consistent and transparent. The ICA's Property Resilience and Exposure Program (PREP) includes the capacity for local governments to understand and include potential changes to insurance affordability as part of proposals for mitigation works.

Critically, where mitigation works are completed, insurers require detailed information about how the hazard exposure has been modified for the better. There are examples across Australia where mitigation infrastructure may already exist. Unfortunately the benefits are often not mapped or understood and, as a consequence, may not be taken into account when calculating a risk-based premium.

***Draft Recommendation 3.3***
***The Australian Government should publish estimates of the future costs of natural disasters to its budget in the Statement of Risks. It should also provision through annual appropriation for some base level of natural disaster risks that can be reasonably foreseen. For more catastrophic, less quantifiable risks, it is likely to be more efficient to finance the related costs if and when the risks are realised.***

The ICA supports the recommendation that the Australian Government should publish budget estimates for the future costs of natural disasters.

The ICA submits that the natural disaster recovery budget should be informed by catastrophe modelling, rather than the simple historical average of costs currently used in NSW and proposed to be used by this recommendation.

Modelling will result in a more accurate budget, and reduce the risk of over or under budgeting due to irregularities in past expenditures. Catastrophe modelling expertise is widely accessible and continues to benefit from improvements to exposure mapping. Private providers of catastrophe modelling could be readily engaged to support the development of an appropriate estimate of future natural disaster costs for inclusion in the Statement of Risks.

***Draft Recommendation 4.9***
***Insurers should provide additional information to households regarding their insurance policies, the natural hazards they face and possible costs of rebuilding after a natural disaster. This work could be led by the Insurance Council of Australia to ensure consistency in the provision of information across insurers.***

**Providing additional information on insurance policies**

The ICA supports the concept that insurers should provide information about their insurance policies to households. Insurers are required to provide insured households with details of their policy at the time of purchase through a Product Disclosure Statement. These documents are also available to households when searching for an insurance policy that best suits their circumstances.

Advances in technology and changes in consumer literacy and awareness are driving continual improvement to product disclosure. In its submission to the Financial Systems Inquiry (FSI), the ICA identified the need for a strategic review of disclosure objectives and the regulation that drives (and in many cases limits) how an insurer discloses product conditions to a consumer and provides advice at the time of purchase (if any is given). As part of the FSI process the industry has emphasised many of the same issues raised as part of the Commission's draft report, and has recommended that general insurance disclosure warrants its own disclosure approach distinguishable from that applying to other financial services products.

The ICA respectfully suggests that the Commission's final views on disclosure would be better informed with reference to any measures the FSI recommends to strengthen general insurance disclosure.

It is also important that community members are empowered to understand product disclosure through improved financial literacy. The ICA draws the attention of the Commission to the Understand Insurance project, a collaborative effort by insurers through the ICA. The project provides information to help community members learn about insurance and risk, and empowers them to make better informed decisions about choosing a product that may be suitable to their circumstances.

The Commission has requested information on sum-insured and total replacement cover policies.

The ICA can confirm that households continue to have a choice of policy types in Australia including:

- Sum-insured cover, where compensation is fixed at a level selected by the policyholder;
- Sum-insured plus margin cover, where compensation is fixed at a level selected by the policyholder and where an additional margin is available under certain circumstances to assist with rebuilding and other costs; and
- Total replacement cover, where no sum-insured operates to limit the compensation available.

Though total replacement cover policies are often proposed as a key solution to underinsurance (for example by the 2011 National Disaster Insurance Review), the product

does itself not solve underinsurance, it only transfers the risk of underinsurance to the insurer.

Offering a total replacement policy creates a number of challenges for insurers and requires a significant investment in modelling, understanding the customer's property and in portfolio exposure management. As the sum insured is uncapped in total replacement policies, insurer exposure to rebuilding cost is likely to be variable and a certain degree of subjectivity is required. This creates uncertainty around the insurer's portfolio and consequently it is offered by a small number of insurance brands.

Reinsurance rates, for what may be considered to be uncapped liability, have been increasing significantly and reinsurance capacity for total replacement cover is reportedly decreasing. This exposes insurers to significant reinsurance pricing and regulatory impacts, which in turn forces a higher level of insurance premium to be collected.

Calls for the adoption of universal total replacement policies are not supported by the insurance industry. This would reduce consumer choice and increase premiums. It would also potentially lead to increased non-insurance, where households are no longer able to purchase insurance cover at a level that they can afford or at a level below replacement cost in cases where the household wishes to self-insure a component of the risk.

Total replacement policies are suitable for some households. Sum-insured policies are equally suitable for others, especially where the household wishes to retain some risk or has budgetary constraints.

On this basis, the ICA believes it is important to maintain choice in the market and to improve sum-insured rebuilding estimates to reduce underinsurance through greater accuracy, rather than solving this challenge by removing consumer choice through any move towards a total replacement cover regime for the market.

**Providing additional information on rebuilding costs**

As described in the previous section, there is a need to consider insurance disclosure issues as part of the FSI process.

Insurers do offer guidance on rebuilding costs. This guidance typically comes in the form of web calculators and from insurance professionals (brokers) who tailor insurance products to a customer's circumstances. The Insurance Council also offers its own free calculators through its Understand Insurance consumer financial literacy website.

It is important that any specific guidance to individual households on rebuilding costs is reasonably accurate and reliable. The use of web calculators allow insurers to capture additional information to more accurately estimate rebuilding costs. Estimating rebuilding costs solely on the policy application information can miss critical information, such as the slope of land that a home is built on - a factor that can significantly influence the total rebuild cost.

Web calculators are becoming increasingly sophisticated, with many now including increased sums-insured to address additional rebuilding costs that are a result of new building standards. Though nearly all insurers make web calculators available, and encourage policyholders to use them, an increasing number of insurers have now integrated use of a

calculator as part of the insurance pricing process. Market forces are driving change in this space to the benefit of consumers, and ongoing competition is likely to deliver a better product than a regulated solution. However, insurers face obstacles regarding the boundaries between giving personal and general advice, which can discourage general insurers from providing more tailored information to consumers about their policies. These matters have been raised as part of the FSI process.

The accuracy of insurer rebuilding estimates is also affected by a lack of information about what rebuilding standards will apply in each specific location and how these change over time. For example, where bushfire is a prevalent hazard, the local council may introduce development controls on specific land parcels that dictate the need for new standards to be met (when building or rebuilding). This information is only available at the local level to the property owner, and is not available at scale for insurers. Indeed, many property owners report they were unaware of changes to applicable standards. As technology improves it will be important to share this type of information so that more accurate estimates can be developed by insurers for provision to consumers through calculators.

To ensure a reasonably accurate and reliable rebuilding estimate is provided to consumers, the ICA suggests continual improvement of the calculator approach driven by competitive forces. However, providing a comparison between current sum insured and an estimate based on incomplete information by an insurer could result in significant variances from true costs, and discourage consumers from robustly reviewing their sum insured.

**Providing hazard data for households**

The ICA supports the intent of the recommendation, which is that properly informed households are in a position to make better risk-management decisions with regard to purchasing appropriate levels of insurance. Further, this information would enable the householder to undertake critical preparations to manage hazard impacts before they occur.

Informing households about the probable hazards they may face remains a core government responsibility that should continue to be pursued through national initiatives, or at a minimum through consistent State-based initiatives.

Hazard information provided to households needs to be simple and consistent. In many respects the information that households can use effectively will be less sophisticated or low resolution in terms of the density of information it presents.

Figure 1 provides some high-level conceptual examples of the type of information that might most advantage a household if consistently available through a government portal or application.

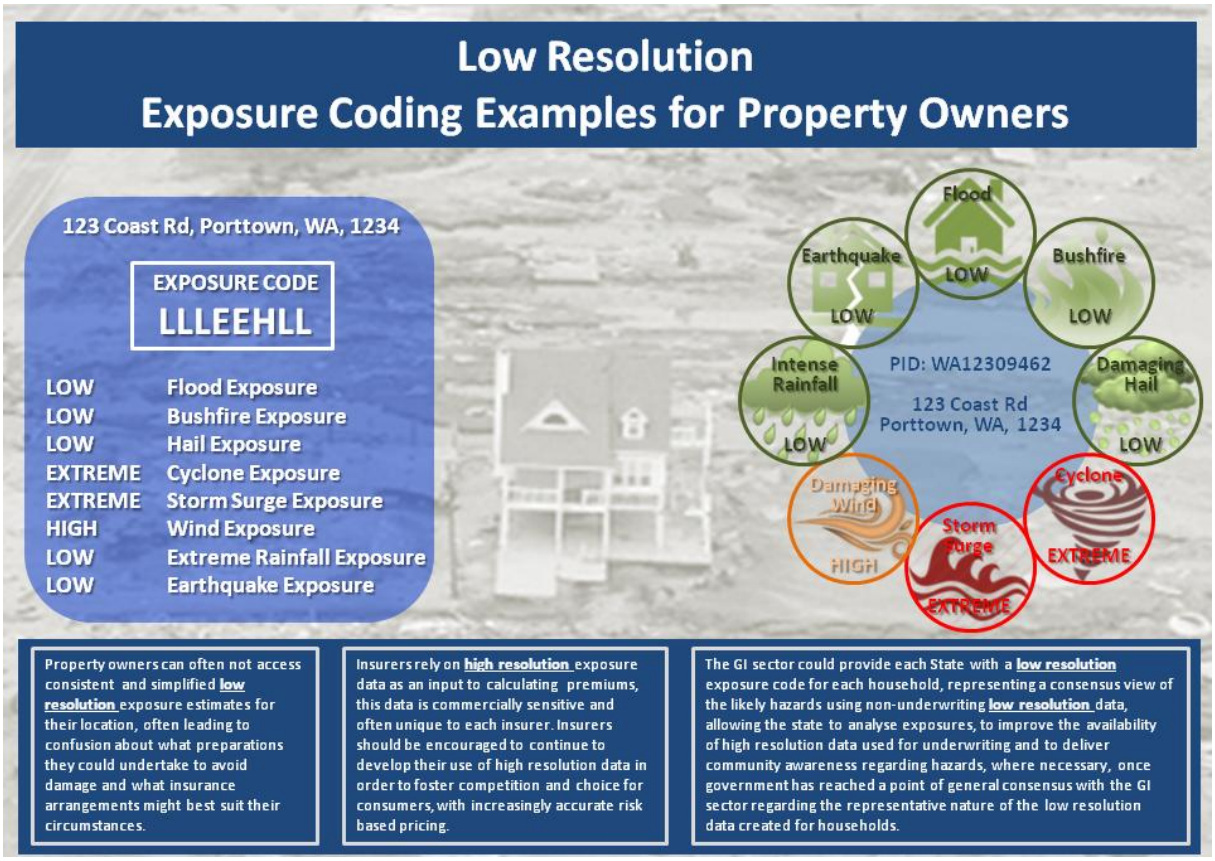


Figure 1 - Examples of Low Resolution Exposure Coding for Households

Insurers on the other hand require high-resolution hazard data to apply their underwriting expertise to deliver accurate and competitive risk-based pricing. For example, a householder would not benefit from access to the digital terrain data and gridded flood surface models for water depth, height and velocity that insurers increasingly rely upon to calculate premiums.

The ICA submits that by working closely to help individual governments develop low-resolution or simplified hazard data (at address level) that reflects a consensus view of the extent of hazards in the region, a basic level of household understanding about hazards can slowly begin to take root. This would not be the high-resolution technical underwriting data relied upon by insurers.

The ICA also acknowledges a need for closer alignment between the price signal delivered by insurance and household understanding of hazards in the location. However, the ICA maintains governments should remain the primary source of information on local hazards, consistent with their planning, emergency management and development control responsibilities.

In the absence of a national coordination capacity for hazard-related data, the ICA is continuing to work closely with states, local governments and their representative bodies on these matters. Several states are now publishing hazard-related data in portals that can be accessed by the public, and are working towards more consistent disclosure of hazard data to households. These efforts are also enabling insurers to access some hazard-related

datasets. However, there is little consistency in what data is available, how it is developed, licensing conditions and how it is made available.

Relying upon arrangements crafted with individual governments and jurisdictions is time consuming and inefficient. It creates inconsistencies both in terms of what is made available by governments to industry, what can be made available in return and the quality of the outcomes for individual households and communities.

**A better way - A national approach to hazard data transparency**
The ICA submits that the Commission's position regarding a national hazard data capability, namely that

> "*there is no compelling case in the evidence so far for establishing a national 'clearing house' for natural hazard data",*

should be reconsidered.

The ICA agrees with the submissions made by stakeholders including GeoScience Australia, Treasury, the Bushfire & Natural Hazards CRC and the Australian Business Roundtable for Disaster Resilience & Safer Communities, that there is a core role for government to play in delivering consistent hazard-related data to the community, industry and all stakeholders who rely upon hazard information for risk-management purposes.

The need for a national capacity has also been identified in COAG's 2013 National Adaptation Priorities:

> *"..The Australian Government is well placed to generate and coordinate most of the important public good science and other information that will be needed. Much of this information is too costly for individual businesses, groups or local governments to generate …"*

The ICA submits that a significant productivity dividend could be delivered if a nationally consistent approach for hazard-related data were created, which in turn would complement the proposed "Low Resolution Exposure Coding" framework as mentioned above. Such an approach could include a national platform delivering hazard-related data that is openly available to all stakeholders, with the resolution of information provided capable of being tailored to each audience. For example, households might be able to access simplified data regarding their local hazards; insurers, industry and government agencies would access high-resolution hazard-related data.

By establishing a national data platform the Australian Government would be better able to co-ordinate and prioritise resilience activities across relevant departments and levels of government and addressing the Commission's Draft Recommendation 3.2. This could be supported by a Business and Community Advisory Group to help facilitate a more co-ordinated response to policy development and decision making.

Alternatively, a nationally consistent approach to hazard data might also be achieved through harmonisation of the various state-based platforms that are in development in each jurisdiction. A COAG agreement on the need for each jurisdiction to deliver certain types of public good information could be established, allowing each jurisdiction to resource and

implement their own hazard data capacities within a nationally consistent framework to ensure that a core set of objectives are achieved.

Regardless of the approach taken, be it a single national capability or a harmonisation of individual jurisdictional services, the act of coordinating the development and publication of hazard data would naturally improve the quality and availability of this critical data over time. It would also assist to ensure consistency and avoid the inefficient, costly and frequently observed duplicated efforts between some governments and industry sectors.

Achievement of COAG's national resilience priorities is in many ways fundamentally predicated on appropriate hazard data being available, an outcome that can be best met through a nationally coordinated approach. The ICA suggests that with little modification to scope, the recently announced *National Map Open Data* initiative could be expanded to begin delivering transparent hazard information. The National Map initiative gives stakeholders access to a single platform for Australian Government geospatial datasets, including those from the Bureau of Meteorology, Australian Bureau of Statistics and data.gov.au. The ICA submits that government should consider using this initiative as a platform to coordinate the consistent delivery of all government geospatial data that has relevance for hazard and risk management. The National Map initiative could house nationally significant datasets, those datasets that jurisdictions provide to it, or could link to consistently developed hazard data that is maintained at jurisdictional level.

Critically, datasets that can be used by many stakeholders for multiple purposes should be the first datasets considered for open access. Foundation datasets that would contribute in this fundamental way, if made openly available, include a nationally consistent geocoded address file, topography data, climate data, demographic data, jurisdictional data and infrastructure data.

The ICA suggests that Draft Recommendation 4.9 may be usefully reframed as follows:

> ***Recommendation 4.9***
> *Undiluted insurance price signalling benefits the community by assisting to motivate a transition to a less vulnerable environment. The price signal, especially for those in the community with higher risks, needs to be understood and accepted by governments and individuals if that price signal is to have the effect of motivating appropriate risk management strategies in the community.*
>
> *To support national disaster recovery and resilience objectives, insurers should:*
>
> - *Maintain competitive forces driving the development of increasingly high resolution exposure underwriting datasets that assist to provide accurate price signals to the community.*
> - *Accelerate industry level collaboration with relevant governments in order to assist in the availability of, through governments, household relevant exposure data for all common hazards, that reflects the higher resolution hazard data employed by insurers and governments for risk management*
> - *Continually improve disclosure arrangements and processes designed to provide appropriate guidance to consumers about choosing the most appropriate products and coverage level for their circumstances.*

***Draft Recommendation 4.1***
***When collecting new natural hazard data or undertaking modelling, all levels of governments should:***

- ***make information publicly available where it is used for their own risk management and/or there are significant public benefits from doing so***
- ***use private sector providers where cost effective, and use licencing arrangements that allow for public dissemination. Where there are costs involved in obtaining intellectual property rights for existing data, governments should weigh up these costs against the public benefits of making the data freely accessible***
- ***apply cost recovery where governments are best placed to collect or analyse specialist data for which the benefits accrue mostly to private sector users.***

The ICA supports this recommendation and submits that greater coordination or agreement between governments on standards and access would:

- Greatly assist communities to understand the hazards that may impact them
- Reduce the duplication of effort between and within jurisdictions
- Improve the efficient transfer of relevant hazard-related information between governments, insurers and communities
- Reduce overall government expenditures.

The ICA reiterates that the Commission's contention in the draft report - that there is no compelling case for national coordination of hazard information - is flawed and should be reconsidered. The ICA's response to Draft Recommendation 4.9 provides further detail on this point.

Greater progress could be made if COAG resolved that all States and Territories should publish relevant hazard mapping through a community-accessible GIS portal, perhaps linked to each state's emergency services, natural resources, environment or planning departments. A national portal, should each state government wish to deliver information through the Commonwealth, is a further refinement of the need. A COAG resolution should seek to:

- Remove persistent issues regarding ownership of datasets that have been created with public funds
- Neutralise the legitimate liability concerns for many stakeholders
- Ensure that any geospatial data (accounting for national security concerns) is published in the national interest under creative commons standards.

The ICA submits that cost recovery for the development of hazard data should be applied only to a small number of highly specialised data resources (those with data not commonly applied to the needs of the general community) and that the general presumption should be that such data should be released under creative commons.

The ICA considers that Draft Recommendation 4.1 may be usefully re-crafted as follows:

> ***Recommendation 4.1***
> *Governments should establish a COAG agreement binding all levels of government to the development and distribution of natural hazard data in order to facilitate the achievement of resilience and recovery objectives in the national interest. Such an agreement should:*

- *Make hazard and hazard related information openly available where it is used for planning, development control, land-use approval processes or risk management and/or there are significant public benefits that arise from doing so*
- *Ensure that data ownership and liability provisions for existing hazard and hazard-related information are suitably managed*
- *Ensure that newly created hazard and hazard-related data funded with public monies is available under creative commons principles unless security concerns prevent release*
- *Ensure that relevant standards are established to guide the consistent high-quality development of hazard and hazard-related information*
- *Use private sector providers where cost effective, and use licensing arrangements that allow for public dissemination. Where there are costs involved in obtaining intellectual property rights for existing data, governments should weigh up these costs against the public benefits of making the data freely accessible*
- *Apply cost recovery where governments are best placed to collect or analyse specialist data for which the benefits accrue mostly to private-sector users.*

***Draft Recommendation 3.4***
***State, territory and local governments should further investigate non- traditional insurance products for roads. Where they do not already do so, state, territory and local governments should compile and publish detailed registers of road asset condition and maintenance for all roads over which they have jurisdiction (and have these registers independently audited). This may help insurance markets to understand and price the risk. Consideration should be given to the Victorian model in this regard.***

The ICA supports this recommendation in its present form.

***Draft Recommendation 4.2***
***State and territory governments, local governments and insurers should explore opportunities for collaboration and partnerships. Partnerships, for example, could be formed through the Insurance Council of Australia and state- based local government associations (or regional organisations of councils). Consideration could be given to the Trusted Information Sharing Network model, and involve:***

- ***governments sharing natural hazard data that they already hold and undertaking land use planning and mitigation to reduce risk exposure and vulnerability***
- ***insurers sharing expertise and information (for example, claims data) to inform land use planning and mitigation***
- ***collaboration to inform households of the risks that they face and adequacy of their insurance to fully cover rebuilding costs, and to encourage private funding of mitigation through incentives such as reduced premiums.***

The ICA supports the intent of this recommendation and refers to the issues raised in the ICA response to Draft Recommendations 4.1 and 4.9, in particular the strong industry preference for national coordination of these issues in the long term. A number of formal relationships now exist between the general insurance sector with governments and reference groups that

may form a useful starting point for the establishment of national or state-based arrangements..

Trusted Information Sharing Networks (TISN) are useful constructs where an appropriate focus can be maintained on purpose and partners can provide resources equitably. The ICA's PREP initiative is an example of a TISN, though partnership arrangements at present encompass only specific local governments and insurers who choose to participate through the ICA. A broader application of PREP is feasible, with hazard information and building resilience data openly shared with State and Commonwealth governments, preferably to assist with the establishment of nationally coordinated hazard data arrangements.

With regard to private funding of mitigation efforts. It is conceivable that community-level mitigation efforts (such as a flood levee) could be funded through contributions by community members who will benefit the most. However, it is not the role of insurers to contribute to mitigation funding. Insurers price the residual risk that remains after mitigation efforts have been completed by governments or individuals. Individual community members, whether insured or not, then benefit through increased safety. Policyholders also benefit through a premium that more accurately assesses risk and is potentially lower as a result of the reduced hazard exposure.

The ICA's PREP program could assist to identify addresses that would benefit from mitigation to a greater extent than other addresses in a hazard zone. Allocation of cost recovery from community members would ultimately be a decision for government, and ICA believes that there are multi-generational community benefits from mitigation that warrant a broader application of cost recovery than simply targeting those property owners who receive a measurable reduction in hazard exposure .

At a household level, insurance premium-incentivised private funding of individual mitigation efforts (such as floor raising, bushfire sprinklers) is only feasible where the industry is able to value, in a consistent manner, the risk reduction achieved. The ICA's PREP program, with its embedded Resilience Rating Tool, is a step towards developing this ability.

The draft report has also identified that there is no apparent need for building codes to be enhanced as a mechanism to reduce damage and loss for the community. Post-event analysis of building damage after a number of natural disasters indicates there is a crucial role for government to support community resilience by ensuring that new buildings in at-risk areas are constructed to withstand hazards such as tropical cyclones, storm surge, severe storms, hail storms, bushfires, earthquake and flood.

Building codes that seek to minimise the impact of flooding on a property are an essential component of an effective multi-faceted, integrated approach to reducing the risk of natural hazards. The ICA submits that the Commission should reconsider its position on the efficacy of building codes as a resilience measure.

***Draft Recommendation 4.3***
***State and territory governments should hasten implementation of the Enhancing Disaster Resilience in the Built Environment Roadmap, including reviewing the regulatory components of vendor disclosure statements. Furthermore, the Land Use Planning and Building Codes Taskforce should consider possibilities for regular, low- cost dissemination of hazard information to households by governments and insurers (for example, the work of the Insurance Council of Australia to develop natural hazard ratings at a household level).***

The ICA supports this recommendation in its present form and refers to its previous response to Draft Recommendation 4.9 as it relates to how governments and insurers could collaborate to enhance short-term hazard disclosure arrangements for households.

The ICA strongly supports the need for vendor disclosure arrangements, and the related certificates provided under each state planning scheme, to be reviewed with the intent of harnessing this communications channel to greater effect to better inform households, including how renters could be informed about hazards through the relevant state rental board or authority.

***Draft Recommendation 4.4***
***State governments should:***

- ***clearly articulate the statewide natural hazard risk appetite in land use planning policy frameworks***
- ***provide local governments with guidance on how to prioritise competing objectives within land use planning***
- ***provide local government with guidance on how to integrate land use planning and building standards. Consideration should be given to Victoria's Integrated Planning and Building Framework for Bushfire in this regard.***

***Furthermore, local governments should publish the reasoning behind development assessment decisions.***

This recommendation is strongly supported by the general insurance sector. Limiting the unnecessary exposure of future communities to hazards is critical to ensuring that these communities are safer and sustainable, and can access affordable insurance products.

ICA has observed that most local governments reject development applications that they believe are unsafe. However, some do approve risk-inappropriate developments where an appropriate balance between the need to grow and the community's safety has not been achieved. In some jurisdictions the ability of the state to overturn a council's decision has also led to potentially unwise and unsafe community growth.

Universal adoption of the three principles in this recommendation by state governments would assist to limit inappropriate decisions being made in the future, or at least make them more understandable and defensible where they are necessary.

The ICA reiterates that the Commission may have undervalued the impact that building and development controls can have on reducing vulnerability in the built environment. The ICA maintains that building codes in Australia must begin to mandate measures for property resilience, as they do in many hazard-exposed international jurisdictions.

***Draft Recommendation 4.8***
***State and territory taxes and levies on general insurance should be phased out and replaced with less distortionary taxes.***

The ICA supports the recommendation and encourages the Commission to emphasise the significance of tax reform on insurance products as a tool to manage disaster resilience and climate change adaption.

The ICA suggests that the Commission consider strengthening the recommendation to reference the forthcoming Taxation White Paper as the appropriate process to prioritise insurance taxation reform and in particular, to set a target of 2020 as the timetable for the abolition of all insurance taxes.

The ICA also respectfully suggests that the Commission can further emphasise the value of setting clear and unambiguous tax reform timetables by referencing the successful approach taken to tax reform initiated by the ACT Government.

**Conclusion**
The imbalance between funding for response activities compared with mitigation activities is a longstanding economic failure. Correction of this imbalance, in a manner that incentivises a systemic approach to reducing existing community exposures and prevention of future planning mistakes, should be a national priority.

General insurance has a significant role to play in this crucial transition. Insurance products transparently price risk and offer protection to community member for the risks they wish to have covered. Insurers continually improve the products and tools they offer to provide protection and to assist with the transition to a safer community.

Closer alignment between the price signals delivered by general insurance, with authoritative government exposure data and programs to reduce those exposures, is possible through the formation of closer partnerships with governments.

If you require further information in relation to this submission, please contact Mr Karl Sullivan, Insurance Council's General Manager Risk and Disaster Directorate

Yours sincerely

Karl Sullivan
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**Insurance Council of Australia**