Financial Rights
LEGAL CENTRE

Submission by the Financial Rights Legal Centre

Senate Select Committee

Impact of Climate Risk on Insurance Premiums and Availability

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Introduction

Extreme weather events in recent years have had a devastating effect on people that is still being felt today. Tens of thousands have lost their homes and were displaced from their communities. Many had problems with their insurance claims that exacerbated the stress and anxiety they were already feeling. After all of that many now find themselves unable to afford cover going forward.

Consumer advocates, through client interactions and extensive research, have gained insights into the challenges people have faced with insurance before and after extreme weather events. While home and contents insurance are pivotal for post-disaster recovery, many affected people find themselves increasingly unable to access its benefits.

The extreme events since the Black Summer bushfires have brought to light fundamental challenges in accessing and affording insurance across Australia. Rectifying these problems with insurance will safeguard that it can be sustainable in the long term as natural disasters continue to increase in frequency and severity.

About the Financial Rights Legal Centre

The Financial Rights Legal Centre is a community legal centre that specialises in helping consumers understand and enforce their financial rights, especially low income and otherwise marginalised or vulnerable consumers. We provide free and independent financial counselling, legal advice and representation to individuals about a broad range of financial issues. Financial Rights operates part of the National Debt Helpline, helping NSW consumers experiencing financial difficulties. We also operate the Insurance Law Service which provides advice nationally to consumers about insurance claims and debts to insurance companies, and the Mob Strong Debt Help services which assist Aboriginal and Torres Strait Islander Peoples with credit, debt and insurance matters.

Financial Rights also conducts research and collects data from our extensive contact with consumers and the legal consumer protection framework to lobby for changes to law and industry practice for the benefit of consumers. We also provide extensive web-based resources, other education resources, workshops, presentations and media comment.

This submission is an example of how CLCs utilise the expertise gained from their client work and help give voice to their clients' experiences to contribute to improving laws and legal processes and prevent some problems from arising altogether.

List of Recommendations

1. The Government should create a standing General Insurance Pricing Monitor.
2. Subsidise insurance for people who can't afford it during the transition to more sustainable development and risk mitigation. The Federal Government should trial subsidies for insurance for people who can't afford it, particularly for people on low incomes.
3. Federal and state governments should expand funding for trials of microfinance insurance products to provide protection for people on lower incomes.
4. Governments should work together to develop a Hazard Risk Database that provides easily understood, publicly available information on current and future climate risks to individual properties. This Database should include data on the risk of floods, cyclones, bushfires and coastal erosion.
5. Insurers should be required to consider relevant property-level mitigation measures in any new or renewing insurance policy, and to demonstrate how those measures have been reasonably reflected in the proposed premium.
6. Insurers should be encouraged to offer multi-year premium discounts commensurate to mitigation works.
7. Governments and insurers should provide advice on mitigation measures that people could take and provide free assessments for people who have undertaken mitigation on their homes.
8. State and territory governments should amend residential tenancy laws to require landlords to take reasonable steps to make rented homes resilient to climate risks.
9. Allocate financial assistance for mitigation measures: Governments should allocate sufficient funding to assist property owners on low incomes and social housing providers in disaster-prone regions to undertake approved, cost-effective property-level mitigation measures.
10. Plan for relocation of communities at high-risk: National Cabinet should agree on a clear and consistent approach to supporting relocation of communities that face high risk of natural disasters.
11. Fund community engagement: Governments should provide funding for dangerously exposed communities to undertake consultations about ways to mitigate future risk, including the possibility of relocation.

Terms of reference

a) the unaffordability of insurance in some regions due to climate-driven disasters;

Insurance unaffordability is widespread across the community. People were struggling to afford their increasingly high insurance premiums before the Black Summer bushfires in 2020 and the floods of 2022 and the problem has only escalated since. By its very nature this issue disproportionately impacts people on lower incomes who tend to occupy a greater proportion of housing in more disaster-prone areas.

The Actuaries Institute conducted research on home insurance affordability and found that insurance premiums have increased by 50% in high-risk parts of Australia. Nearly one in eight Australian households (1.24 million) are now classified as affordability stressed, spending more than four weeks of their annual income on home insurance.[1] North Queensland and the flood-prone Northern Rivers region of NSW are among the hardest hit areas when it comes to affordability-stressed households, more than half of the cost of their home insurance premiums are due to the risk associated with floods.[2]

Case study 1. Jane's story – CHOICE[3]

CHOICE spoke with Jane, a single mother living in Northern NSW, with her two teenage kids and aged parent. In recent years, she has been affected by the 2017 and 2022 floods, the 2019-2020 Black Summer bushfires, droughts and the COVID 19 pandemic. She shared:

"I'm a single mother on a single mother's pension, I am at risk of homelessness, I knew I was buying in a flood plain but did not want to risk being in the rental market".

Jane did not have flood insurance when her home was flooded by just under a metre of water in 2022. She has home and contents insurance, but opted out of flood cover because of the cost:

"It came down to affordability, I had no choice, I can't afford flood insurance. I did look into it, but it was prohibitive, maybe $4,000 plus, I can't afford it".

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[1] Actuaries Institute, 2023, Home Insurance Affordability Update

[2] Ibid

[3] Case Study from Joint Submission by the Financial Rights Legal Centre, CHOICE, Consumer Action Law Centre and Westjustice to the House of Representatives Standing Committee on Economics Inquiry into insurers' responses to 2022 major floods claims, November 2023

Despite many public inquiries investigating the nature and preparedness of communities to respond to natural disasters, there is still no clear data about the nature and scale of non-insurance and underinsurance due to unaffordable premiums. Many households in recently flood-struck regions were uninsured and have relied on post-disaster government assistance to survive and recover. The consequences of non-insurance make recovery from a major natural disaster extremely difficult.

A Climate Council national survey found that 1 in 20 people had cancelled their insurance coverage due to an increase in their home and contents premium and 1 in 9 had reduced their overall coverage. A further 1 in 20 people had been told by their insurance provider that they could not be insured and a third of people that did have insurance said they were struggling to afford paying their premiums. The Climate Council found that nearly two thirds of people reported that their premiums had increased in the last two years.[4]

Case study 2. Louise's story – CHOICE[5]

CHOICE spoke with a mother and son living in the Hawkesbury river region of NSW, their house is located on a floodplain. They were aware that there was some risk of flood when they purchased the brick and timber house, but didn't know how bad it could get.

Louise said:

"We didn't think the risk was that high and we couldn't afford to live anywhere else".

They had been in the house for 9 years and had lived through three separate floods, in March 2021, March 2022 and July 2022. Louise indicated that they bought the house on the understanding that there was a one in a 100 year flood risk, which she took to mean every 100 years she could be flooded versus there being a 1% chance every year of being flooded. The increase in floods has caused a jump in her premium price:

"My insurance, including flood cover, cost me $9,000 this year. I used some of my last payout to pay for it, but I'm not sure if I can afford it next year".

Like many others, their property's value has reduced significantly, leaving them trapped in an unsellable home.

The ACCC estimated that 89% of insurable properties have home insurance. The rate of insurance can, however, vary significantly by location. For example, the ACCC found that just

[4] Climate Council, 2022, [Uninsurable Nation: Australia's most climate-vulnerable places]

[5] Case Study from Joint Submission by the Financial Rights Legal Centre, CHOICE, Consumer Action Law Centre and Westjustice to the House of Representatives Standing Committee on Economics Inquiry into insurers' responses to 2022 major floods claims, November 2023

60% of insurable properties were insured in North Western Australia. Lower uptake of home insurance is associated with regions with a lower socio-economic profile and/or higher exposure to extreme weather.[6]

The ACCC's analysis of data from insurers also found that as premiums rose, for example in Port Hedland, the average sum insured declined as people sought to manage their premiums.

This can help to explain the persistence of underinsurance in disaster-prone areas.

Case study 3. Trang's story- Financial Rights, S297229

Trang lives in a land lease community in Queensland, and experienced flooding in 2011 and 2022. In the 2022 flood, water went underneath his house and he made a claim on his policy. When it was time to renew the policy, the insurer advised Trang they were no longer insuring properties where flood claims had been made.

Trang approached other insurers for quotes but the premiums quoted were extremely high compared to what he was paying before, and were unaffordable for him. Trang says a neighbour got insurance from an alternate insurer at a much lower price. The insurer agreed to review their quote, but declined to change the price.

Trang is concerned about not being insured, as this is one of the requirements of owning a property in the land lease community.

Trang can seek reasons for their decision in writing to understand if the refusal to continue to provide insurance could be challenged, but there are limited jurisdictional grounds at AFCA to dispute premium decisions.

Sam's story – NSW – C204809

Sam received his home insurance renewal notice in 2020. Sam has had insurance with the same insurer for 10 years. Sam says his premiums were $1,100 last year and this year $2,200. The policy is for a sum insured amount of $400,000 and contents at $80,000. Sam has never made a claim. When Sam rang the insurer to ask why the premiums have doubled he was told it was commercially sensitive and the insurer could not go into detail. Sam then called other insurers to shop around. One insurer offered him insurance at $4,100, while another

[6] Australian Competition and Consumer Commission, 2020, Northern Australia Insurance Inquiry – Final Report Canberra

insurer said they would not insure Sam's home at all. Sam says he has not had a paycheck in six weeks because of COVID-19 and he cannot afford the higher premiums.

Keavy's story – Queensland – C205401

Keavy is having problems obtaining affordable insurance on his home in Queensland. In 2020 he used a broker who obtained home and contents coverage for $3,000. By 2021 the cheapest coverage the broker can find is $7,400. Keavy has tried other brokers and he has gotten about a dozen quotes and they are all around $10,000-$13,000. Keavy's home flooded in 2011 but he says he is not particularly high risk. Keavy wants to know how he can change the categorisation of his home being 'high risk' to insurers.

b) the unavailability of insurance for some people due to climate-driven disasters;

We cannot comment on this issue. While we have some anecdotal evidence of consumers that are struggling with the unavailability of insurance due to climate-driven disasters we do not have representative data about it. The insurance industry would be better placed to comment on whether there are pockets of Australia or certain perils where they no longer provide coverage.

c) the underlying causes and impacts of increases in insurance premiums;

Consumer groups are not best placed to comment on the underlying causes and impacts of insurance premium increases. Our understanding of these issues comes from recent publications by the Actuaries Institute[7] and from communications put out by the Insurance Council of Australia.[8]

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[7] Actuaries Institute, "Home Insurance Affordability Update." August 2023. Available at: https://actuaries.asn.au/Library/Opinion/Generalinsurance/2023/240229HIAUV2.pdf
[8] https://insurancecouncil.com.au/issues-in-focus/affordability/

d) the extent to which increased climate risk is being priced into insurance products not exposed to climate-driven risks;

Consumer groups have almost no visibility of insurance pricing and so cannot comment specifically on the extent to which increased climate risk is being priced into insurance products not exposed to climate-driven risks. Generally, we support risk pooling to spread the cost of insurance more equitably across society, but in the case of climate related disaster risk we accept that there are dangers to masking the risks. These include the lost opportunity to signal risk so that it can be mitigated, the need to maintain a viable insurance industry so that most citizens can access insurance, the need to drive more sustainable development and most importantly, to encourage people to move out of harm's way where they can.

Nevertheless, there are a number of problems with the practice of pricing climate-driven risks into individual insurance policies. Firstly, the risk signal is going to people who may have little power to address the risk. Governments who have the power to change planning laws, instigate mitigation programs at scale, support planned relocation and take action to reduce emissions only get this message second hand from voters and insurers. As many people impacted have little economic or political power, the message is significantly diluted, while the price individual households pay is high. People are at risk of losing their home, their only, often hard-won asset, if they don't have affordable access to insurance. Many high-risk parts of Australia are populated by people on lower incomes.

Another problem with granular risk pricing is that insurers do not do enough to recognise or incentivise property level mitigation, even when people have the resources to do it. These issues are addressed elsewhere in this submission. The final problem with risk signalling through insurance premiums is that the pricing of insurance is opaque to begin with and it is very easy for insurers to point to rising costs and risks in a general sense without any accountability.

General insurance pricing is largely opaque and hidden from view. Financial Rights has been a public supporter of independent insurance pricing monitors for many years. We strongly endorsed the work of the Emergency Services Levy Monitor in Victoria in 2014 and in NSW in 2016.[9] The FSL Monitor in Victoria was established as an independent statutory appointment with substantial powers to protect consumers when Victoria was transitioning to a Fire Services Property Levy. The Monitor was set up to ensure that insurers genuinely passed on the savings of the abolition of the fire services levy to policyholders. During the time that the

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[9] https://financialrights.org.au/wp-content/uploads/2024/06/240522_ESLLevy_Sub_FINAL.pdf

Monitor was in operation it found that fifty-six insurance companies and brokers had an over-collection of fire services levy (FSL) in Victoria of $12.3 million.

This independent pricing monitor was also empowered by legislation to investigate, conduct research and collect and collate information in relation to matters arising from the administration of the two schemes set up to transition Victoria and NSW away from an emergency services levy on insurance. Under both legislative schemes the Monitor produced significant pieces of research relating to insurance pricing practices that were valuable for the reform process. Its output also produced valuable insights that have contributed significantly to our understanding of insurance pricing more broadly.[10]

Financial Rights was also a strong advocate for the ACCC to have price monitoring powers in relation to the Cyclone and Flood Damage Reinsurance Pool. In 2022, the Australian Government established the cyclone reinsurance pool (the pool) to help lower premiums for households and small businesses with high cyclone risk by reducing the cost of reinsurance. The government directed the ACCC to collect data over 5 years to monitor the impact of the pool, assess whether savings from the pool are being passed through to policyholders, and see whether the pool is delivering on its intended outcomes. While the pool is still in transition the ACCC has already reported that:

> "The way that insurers are choosing to approach the pass-through of any savings to consumers, both as they implement the pool in the short term and as they adapt their systems over the longer term, may directly impact the effectiveness of the pool in achieving savings for consumers at high cyclone risk. Similarly, individual insurers' capability and determination to reward consumers for private risk mitigation investments will also influence the extent of savings the pool will generate for consumers."[11]
>
> *Australian Competition and Consumer Commission*

Premium pricing and risk assessments should be made more transparent. If homeowners and communities are expected to change their behaviour with respect to insurance and mitigating risk, or moving away from high-risk areas it is critical that they be fully informed of the elements that make-up their premiums and any subsequent increases to those

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[10] NSW Emergency Services Levy Monitor, Pricing Differences: New vs existing customers, Discussion Paper, November 2018, https://www.eslinsurancemonitor.nsw.gov.au/sites/default/files/DiscussionPaper_Pricing_New%26Renewals_FINAL.pdf

[11] ACCC "Insurance Monitoring Report – Second report following the introduction of a cyclone and cyclone-related flood damage reinsurance pool" December 2023. Available at: https://www.accc.gov.au/about-us/publications/serial-publications/insurance-monitoring-reports/accc-insurance-monitoring-report-2023

premiums. People will change their behaviour if they are well informed, appropriately incentivised and there is broad community uptake (impact of cultural norms).

We would support the creation of an ongoing Australian insurance pricing monitor. Such a body would be given authority and resources to undertake research, particularly about insurance pricing and disclosure, to promote effective competition and accountability. Legislation will need to enable a pricing monitor to investigate pricing practices more broadly in the insurance sector to promote a well-functioning and competitive insurance market.

Recommendation

1. **The Government should create a standing General Insurance Pricing Monitor.**

e) the distributional impact of increases in insurance premiums across communities, demographics and regions;

Insurance premium increases affect lower income communities disproportionately. In a recent report Anglicare Australia determined that lower income Australians living in less affluent areas pay a significant 'poverty premium' for home and car insurance.[12] They also reported that affordability is the greatest barrier to someone holding insurance at all or holding more adequate cover for their home or car.

The Actuaries Institute found that one million households are currently experiencing extreme home insurance affordability pressure.[13] These households face insurance premiums in excess of four weeks of gross income and are likely to be older, retired and renting, have lower insurance literacy, live in socioeconomically disadvantaged areas and have lower current savings balances.

[12] Anglicare "Australia Fair Series – The Poverty Premium" September 2023. Available at: https://www.anglicare.asn.au/publications/the-poverty-premium/

[13] Actuaries Institute, 2022, Home insurance affordability and socioeconomic equity in a changing climate, Green Paper

The South Australian Council of Social Services reported in 2022 that approximately 6% to 10% of low-income home owning households do not have home insurance.[14] Approximately 50% to 67% of people on a low income do not have contents insurance. SACOSS describes the following risk factors 'creating a perfect storm' around uninsurance:

- Insurance premiums have been rising and will continue to rise with increased natural disasters.
- Financial strain on households has increased during the COVID-19 pandemic, with the risk that these households may let their insurance premium payments lapse, leaving them uninsured.
- People on low incomes are more likely to live in areas with higher risk of natural disasters because the housing tends to be cheaper.
- People on low incomes are unlikely to have the resources or power to engage in much mitigation (because they're renting, and/or because of the cost).

We know that lower income Australians tend to live in higher risk areas and in less resilient housing. Not only do they pay higher premiums based on their risk, but they are also charged higher rates for paying by instalments instead of in an annual lump sum.

f) the role of governments to implement climate adaptation and resilience measures to reduce risks and the cost of insurance;

Insurance affordability in a time of climate crisis raises issues concerning how our society should share the burden of responding to increasing extreme weather event risks. Australia must determine how much risk individual homeowners should bear or whether society should share costs with areas of the country that are less climate-affected. The concept of sharing the risk of increasing insurance prices borne by increasing extreme weather events is gaining support. For example:

> "It has long been necessary, and is now widely recognised and accepted, that governments, businesses, communities and individuals each play a role in various aspects of natural

[14] South Australian Council of Social Service, 2022, Protecting the Basics: Insurance access for people on low incomes at risk from climate emergencies

disaster mitigation, preparedness, response and recovery. National cooperation is essential to make Australia resilient to natural disasters."[15]

Royal Commission into National Natural Disaster Arrangements, 2020

"The committee is particularly concerned at the evidence given by Allianz that it will expect policy-holders to shoulder the burden of increased severe and catastrophic weather risk through increased premiums … we do not accept the proposition that policy-holders should carry the entire burden."[16]

Senate Inquiry: Lessons learned in relation to the Australian bushfire season 2019-20, Interim Report

"Direct subsidies have the greatest potential to work in a targeted way to relieve some of the acute affordability and cost of living pressures facing consumers in higher risk areas, at a lower cost and more effectively than other measures."[17]

Australian Competition and Consumer Commission, Northern Australia Insurance Inquiry, Final Report

As a country we have already developed many areas for housing that lie in flood zones, or face high bushfire risks, cyclone exposure, or are prone to coastal erosion and actions of the sea. Climate science tells us that these risks are likely to increase or move to new areas not previously subject to such events. It is important to limit further development in known high risk areas, and to undertake reasonable mitigation measures without impacting on the environment impacts or damaging cultural heritage sites. Leaving consumers and taxpayers to bear the consequences of decades of poor planning and climate change inaction is both inequitable and antipathetic to community resilience.

Research suggests that there are limits to the effectiveness of using premium prices to signal risk and encourage risk averse behaviour. Only the affluent can respond to such signals, and they do not do so reliably, in part because there is no guarantee that any private mitigation will be reflected in their premium in any event. Less affluent people are likely to simply be left behind in high-risk areas, without access to affordable insurance, with falling property values for those who own their homes, and no realistic option to move.[18]

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[15] *Royal Commission into National Natural Disaster Arrangements Report: Overview - The 2019-2020 disaster season* (28 October 2020), overview, https://naturaldisaster.royalcommission.gov.au/publications/html-report/overview

[16] *Senate Inquiry: Lessons to be learned in relation to the Australian bushfire season 2019-20, Interim Report* (7 October 2020), chapter 7, para 7.114

[17] Australian Competition and Consumer Commission, *Northern Australia Insurance Inquiry, Final Report* (November 2020), p vii, https://www.accc.gov.au/focus-areas/inquiries-ongoing/northern-australia-insurance-inquiry/final-report

[18] Lucas, CH, Booth, KI and Garcia, C, "Insuring homes against extreme weather events: a systematic review of the research" in Climatic Change (2021) 165(3), article 61, http://ecite.utas.edu.au/144172.

We believe there is a role for governments to implement climate adaptation and resilience measures to reduce risks and the cost of insurance. Below we describe a number of interventions we believe will support consumers in the face of climate risk-driven impacts on insurance premium affordability.

Targeted direct subsidies are needed to assist people with unaffordable insurance.

When the ACCC examined a range of policy measures to address affordability of insurance in areas of northern Australia affected by cyclones, it identified subsidies as the most economically effective measure.[19] The ACCC found that:

> "Direct subsidies have the greatest potential to work in a targeted way to relieve some of the acute affordability and cost of living pressures facing consumers in higher risk areas, at a lower cost and more effectively than other measures."[20]
>
> *Australian Competition and Consumer Commission*

Given the growing number of properties affected by other natural hazards, it is time for the Federal Government to consider targeted, direct subsidies for some people for whom insurance is unaffordable, to assist with the transition to a lower risk environment while mitigation and adaptation works are undertaken. We acknowledge there are concerns about interventions in the insurance market that are seen as masking risk and perpetuating development in high-risk zones. We believe subsidies can be designed in a way to avoid any confusion that a property is facing great risk. Mitigation projects and relocation strategies should progress as quickly as possible, but those strategies take time. In the intervening years, subsidies can help lower income Australians share the risk to their homes instead of bearing the entire risk alone.

The use of subsidies could be piloted in communities where insurance is affordable for most but not for people on low incomes. Subsidies should be carefully targeted, with eligibility based on the person's income relative to the premium. For people with assets over a certain level, the subsidy could be charged as a low interest debt against the property or recorded as a caveat for when the property is sold. Warnings should be very clear on renewal notices that subsidies are time-limited and will phase out after other mitigation and relocation strategies have been completed. The subsidy should be claimed by the insured party directly

[19] Australian Competition and Consumer Commission, 2020, Northern Australia Insurance Inquiry – Final Report,
[20] Page vii, ACCC (2020)

from the government based on a fully quoted policy to prevent any opportunity for insurers to increase prices to absorb the subsidy.

While subsidies can help to make insurance more affordable during a lengthy transition to a lower risk environment, they must be balanced with an obligation not to put people in harm's way. Poorly-designed subsidies risk sending the wrong signal to communities living in areas with a high risk of natural hazards about the level of risk they face. There should be an appropriate balance between assisting people to afford insurance in some areas while assisting people to relocate from those areas at the highest risk. There are both economic and safety reasons to get this right.

There may also be other barriers to access that can't be fully addressed by subsidies. In an interview with CHOICE, for its Weathering the Storm Report[21], Good Shepherd shared that:

> "Subsidies will work for a cohort but not everyone…If people are excluded from the insurance market right now, we can't assume that they will be ready, willing and able to re-enter that market."
>
> *Good Shepherd*

Direct subsidies need to be carefully designed and targeted appropriately. The ACCC should be funded to monitor the implementation of a pilot of direct subsidies to ensure that insurers do not absorb subsidies and that subsidies do not significantly distort market outcomes. Subsidies should be carefully designed to complement mitigation programs, rather than undermine them. A well-designed pilot would help policymakers to determine whether direct subsidies should be rolled out more broadly.

Recommendation

2. **Subsidise insurance for people who can't afford it during the transition to more sustainable development and risk mitigation. The Federal Government should trial subsidies for insurance for people who can't afford it, particularly for people on low incomes.**

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[21] https://financialrights.org.au/wp-content/uploads/2023/08/Weathering-the-Storm-Climate-Insurance-Report-2023-1.pdf

Microfinance insurance products needs to be further explored

People are caught in a disaster-induced poverty cycle because they did not have insurance, or they did not have enough insurance, and so they can not afford to rebuild their home or are pushed back into the private rental market.

Insurance products need to meet people's needs, including the needs of people on low incomes. Micro-insurance, which provides insurance products at an affordable rate specifically to households on low incomes, could be a partial solution to the problem of access to insurance for people on low incomes. The South Australian Government has funded Good Shepherd and the Brotherhood of St Laurence to investigate the feasibility of a government funded, not-for-profit, micro-finance home insurance product.

An effective and well-designed microfinance product could help people on lower-incomes have a stronger safety net during natural disaster events. Governments should continue to fund trials for microfinance insurance products in order to test the degree to which these products can address some of the problems with access to insurance for people on low incomes.

Recommendation

3. **Federal and state governments should expand funding for trials of microfinance insurance products to provide protection for people on lower incomes.**

Accurate and consistent risk information from a single reliable source needs to be made available to consumers.

Australians must rely on piecemeal and inaccurate information about their property's level of risk. The ASIC Money Smart website encourages consumers to find out if their home is in a natural disaster-prone area by contacting their insurance company, local council and state or territory emergency services organisation.

It is unclear what information an insurer can or will provide to their customers. The Insurance Council of Australia's Understanding Insurance website directs consumers to their local government to obtain property level information about flood risk. The Insurance Council of Australia states that governments are responsible for assessing and mapping the flood risk to communities. It notes that:

> "Unfortunately, many parts of Australia that have flood risks lack adequate flood data or have outdated flood maps. Most jurisdictions are working hard to improve the accuracy and availability of their flood information."[22]
>
> *Insurance Council of Australia*

Different jurisdictions have developed various consumer-facing tools to assist communities to understand general flood, bushfire, cyclone and storm risks. In Queensland, people can access free property-level Coastal Hazard Maps which show areas vulnerable to coastal erosion or permanent tidal inundation, as well as the projected climate change impact to 2100. The NSW Rural Fire Service has an online tool to check if a property is in a bushfire prone area. CoastAdapt is an online tool that maps the impacts of sea-level rise for coastal LGAs. Emergency services organisations will typically refer people to local government for property level flood risk information.

There are some private Australian providers of climate risk information at a property level, such as Climate Valuation which currently provides a Comprehensive Climate Impact Report for $45. The Climate Council's Climate Risk Map is an interactive map of climate vulnerable places in Australia at the postcode level.

While some of these sources of information are useful in some circumstances, the inconsistent and fragmented way in which they are produced means that it is very hard for most people to find the information they need.

People need better access to information about the current and future exposure of their home to risk of extreme weather events but this information is currently difficult to find. The quality of information available for different types of risks can also vary significantly, with information on flood risk being particularly difficult to understand. This is typically published by local government bodies to inform planning decisions but it has not been developed with consumers in mind.

In the past, identifying a property's risk to an insurable natural hazard may have been an infrequent activity. However, the impact of climate change means that extreme weather risks to many properties have increased in recent years and will continue to change. Consumers need to understand the consequences of this dynamic environment, including how it can affect their home insurance premiums.

Access to timely information about evolving risk exposure can also inform the mitigation measures people may undertake to lower their risk exposure. Improved climate risk

[22] Insurance Council of Australia, 2023, Understanding Insurance - Flood insurance

modelling is also important to understanding a property's long-term risk profile when deciding whether to purchase a home.

Lenders require home buyers to insure their homes over the lifetime of a mortgage, and most people would expect to be able to obtain insurance throughout the life of the home loan. Under responsible lending obligations, lenders must not enter into a credit contract with a consumer if the credit contract is unsuitable for the consumer and the cost of home insurance is typically considered when assessing suitability. Better information about natural hazard risks and future modelling of risks could be used by lenders to more accurately estimate insurance premiums for the term of the loan as part of their responsible lending obligations.

> "We didn't think the (flood) risk was that high… we could not afford to live anywhere else"[23]

Governments need to coordinate to develop a National Hazard Risk Database that provides easily understood, open access information about current and future climate risks to individual properties.

The general insurance industry has already partnered with governments to develop the National Flood Information Database for use by insurers in determining the flood risk to individual properties. The database contains 11.3 million addresses and is based on local council mapping but it is not currently a public database.

As a starting point, the National Flood Information Database should be made publicly available. People should be able to easily look up their address and access information regarding the current and future risk to their homes, enabling them to make empowered decisions. The National Flood Information Database should also be regularly updated and could eventually be included in a broader, National Hazard Risk Database with data on the risk of cyclone, bushfire and coastal erosion.

Many recent reports and inquiries, including the Royal Commission, NSW Flood Inquiry and the Actuaries Institute, have called for publicly available climate risk modelling of natural hazards at the property level. They have noted the significance of this information for informed decision making about property transactions and mitigation investments. The Productivity Commission in 2014 found that many customers underestimate, or are skeptical

[23] Quote from a mother, homeowner, who was insured and experienced a flood on the Hawkesbury River, NSW. This person was interviewed as a part of CHOICE's social research interviews with 21 homeowners and renters. Interview conducted between January and April, 2023.

about, the risks they are exposed to.[24] Almost a decade later, the NSW Flood Inquiry delivered a finding that:

> "Most landholders seem to have little idea if their property is at risk of disaster or has ever been affected previously by disaster."
>
> *Productivity Commission, 2014*

The property-level information contained in a National Hazard Risk Database could be used to enhance public awareness of natural hazard risks by:

- disclosing property-level natural hazard risks when properties are advertised for sale or rental
- informing insurance decisions about property-level exposure to natural weather events, particularly flood
- informing mortgage lenders' assessments of likely insurance costs over the life of a mortgage as part of their responsible lending obligations
- communicating to insurance customers and people who rent about changes in natural hazard risks to their home over time

Policymakers also need to test the best ways of providing and explaining this information to consumers. The Royal Commission into National Natural Disaster Arrangements recommended that governments should develop ways in which natural hazard risk information can be better communicated to the public — particularly to people who are making decisions that will affect their exposure to those risks. For example, those selling a home might be required to disclose this type of information to prospective purchasers.[25]

We recognise that many of the above strategies will render property in high risk areas worthless (or nearly worthless). This means that the brunt of the damage resulting from historic poor planning and climate inaction will fall very inequitably on a relatively small sub-section of property owners, in lower socio-economic areas who are likely to have no other assets. For these families the results will be devastating. For this reason, it is imperative that a systemic, risk data driven, equitable program for buybacks and relocation be rolled out as soon as possible. This is covered further below.

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[24] Royal Commission into National Natural Disaster Arrangements, 2020, *Report*, Canberra; NSW Floods Inquiry, 2022, *Volume Two: Full report,* Sydney; Actuaries Institute, 2022, *Home insurance affordability and socioeconomic equity in a changing climate,* Green Paper; Productivity Commission, 2014, *Natural Disaster Funding Arrangements*, Inquiry Report no. 74, Canberra.
[25] Royal Commission into National Natural Disaster Arrangements, 2020, Report, p.32, Canberra

Recommendation

4. **Governments should work together to develop a Hazard Risk Database that provides easily understood, publicly available information on current and future climate risks to individual properties. This Database should include data on the risk of floods, cyclones, bushfires and coastal erosion.**

Premiums should be lowered in line with risk mitigation and reduction.

In his address last year to the Insurance Council of Australia Conference the Minister for Financial Services Stephen Jones MP made it clear that insurers need to reflect reduced risk in insurance premiums when people undertake mitigation on their own properties:

> "It's clear that we need to do a better job of ensuring that both public and private mitigation efforts are being recognised, both by insurers here at home, and reinsurers around the world. If we do the work, it needs to be recognised and it needs to be rewarded."[26]
>
> *Minister for Financial Services Stephen Jones MP, 2023*

Reducing risk, where possible, is a vital response to living with more frequent and intense extreme weather. Consumers need the resources and information to help them understand what mitigation measures they can implement to lower their risk profile. Many consumers are already taking steps to reduce their risk, but few report seeing a change in their premium. Price signals need to work both ways. If households commit to meaningful mitigation, they should be rewarded. Discounted premiums need to be commensurate with reduced risk, and insurers should commit to multi-year discounted premiums. A single year of reduced insurance cost is not commensurate to raising your house or replacing your roof.

People should be able to take simple steps to make their home more resilient and reduce their risks. Insurers should be required to consider the impact of any measures that a person has taken to reduce risks when determining the price of a new or renewing insurance policy, and should explain how this has been assessed. This requirement should be reviewable by AFCA. The insurance industry should work with consumer stakeholders to develop tools, where necessary, for consumers to easily verify mitigation works.

People also need clear guidance about the steps they could take to reduce their exposure to insurable weather events. These messages need to be simple and actionable, with tangible

[26] The Hon Stephen Jones MP, Assistant Treasurer and Minister for Financial Services. "Address to the Insurance Council of Australia Conference" 12 October 2023

benefits. Actively involving communities in the dissemination of risk mitigation information can also spread the burden of knowledge across the whole community. For example, after the 2011 Brisbane floods, the Yeronga Community Centre was funded to help the local community prepare for disasters and assist in the recovery phase too.[27]

In an interview with CHOICE, the Climate Council observed that property-level, risk mitigation is occurring across Australia:

> "People will do stuff every year to manage the fire risk around their property and a lot of that is not big investments… There is a lot of stuff that people can do to reduce risk significantly, but [they] do require some prior knowledge and a bit of work."
>
> *Climate Council, 2023*

There is considerable value in both community-level and property-level risk mitigation. Resilient homes and communities will still be affected by extreme weather, but their recovery will likely be quicker and cost less.

State governments have implemented the following programs to assist disaster-affected and disaster-prone regions to implement property-level mitigation measures:

- The Queensland and Federal Governments have developed the $741 million Resilient Homes Fund to help Queenslanders across 39 local government areas whose homes were impacted by the 2021/2022 floods.[28] Under the Resilient Homes Fund, funding is available to assist eligible flood-impacted homeowners to repair (enhancing resilience), retrofit or raise flood-affected homes. Voluntary Home Buy-Backs will also be considered on a case-by-case basis.
- The NSW Government's Resilient Homes Program is providing financial assistance to homeowners to improve the flood-resilience of residential properties in the Northern Rivers Region.[29] It will offer eligible homeowners one of the three available measures, based on expert property assessments, flood impact severity data, safety risks and potential future flood levels: Home buybacks, home raising, or home retrofit. The NSW Government also manages the Resilient Lands Program with $100 million in funding allocated to relocating homes to higher ground. Although this program has been slow to roll out and has not provided clear information about who is eligible.
- The Queensland Government's Household Resilience Program provides funding to help eligible homeowners in coastal parts of Queensland improve the resilience of

[27] Yeronga Community Centre, 2023
[28] Queensland Government, About the Resilient Homes Fund
[29] NSW Government, Resilient Homes

their homes against cyclones. Homeowners who participated in the program reported an average insurance premium reduction of 10.3%.[30]

The National Emergency Management Agency (**NEMA**), through the Strategic Insurance Project, is leading the development of a national mitigation measure knowledge base that will support households to understand their risk and the actions they can take to reduce risk.[31] This project to develop a national mitigation measure knowledge base may help to address this need. This may be preparatory work to deliver on the Royal Commission (2020) Recommendation 19.2 that the insurance industry, working with governments and stakeholders, should produce and communicate to consumers clear guidance on individual-level natural hazard risk mitigation actions that insurers will recognise when setting insurance premiums.

The ACCC has also previously called for insurers' quotes and renewal notices to:

- display what discounts have been applied (if any) to reflect mitigation measures undertaken on that property, and
- include a schedule of mitigation measures which customers in similar properties have undertaken to improve their risk rating and a guide to the premium reduction that consumers have received for undertaking these measures[32]

This important reform has yet to be adopted and would provide greater clarity to people who wish to make their home more resilient to extreme weather events.

Recommendations

5. **Insurers should be required to consider relevant property-level mitigation measures in any new or renewing insurance policy, and to demonstrate how those measures have been reasonably reflected in the proposed premium.**
6. **Insurers should be encouraged to offer multi-year premium discounts commensurate to mitigation works.**
7. **Governments and insurers should provide advice on mitigation measures that people could take and provide free assessments for people who have undertaken mitigation on their homes.**

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[30] Joint statement, 3 June 2023, Building a resilient Queensland spirit: stronger, safer, more affordable regional homes
[31] National Emergency Management Agency
[32] Australian Competition and Consumer Commission, 2020, Northern Australia Insurance Inquiry – Final Report Canberra

Rental properties must be made resilient to extreme weather events.

People who rent deserve to live in resilient, safe, and healthy homes. However, many people who rent live in homes that are exposed or poorly adapted to the risks of extreme weather events. Renters are often unable to make meaningful adaptations to make their homes more resilient.

State and territory governments should modernise residential tenancies legislation to require landlords to take reasonable steps to make rented homes resilient to climate risks. Resilience should be considered a minimum habitability standard for all rental homes in Australia. For example, possible resilience changes could include upgrading roofing and windows with fire resistant materials, lifting the height of power sockets or waterproofing exterior walls. These requirements could be phased in over time to allow landlords time to implement improvements.

Recommendation

8. **State and territory governments should amend residential tenancy laws to require landlords to take reasonable steps to make rented homes resilient to climate risks.**

Lower income homes should be supported to make their homes more resilient.

Many homeowners will not have the financial means to invest in risk mitigation measures. In some cases, financial assistance will be needed to undertake cost-effective retrofits to make housing more resilient. Financial assistance will need to be tailored to the needs of different groups including private renters, community housing and owner-occupiers.

Households on lower incomes should be empowered to make changes which make their home more resilient to climate risks. The Federal Government is investing in community-level mitigation through its Disaster Ready Fund which provides up to $200 million annually to build disaster resilience and mitigation projects across Australia[33] but this fund is not currently available to support property-level mitigation. If just 5% of the Disaster Ready Fund were set aside for this purpose, $10 million could be available annually to help owners reduce their risk exposure in highly exposed communities.

Governments should make free property assessments available to homeowners on lower incomes to recommend mitigation measures. For example, the NSW Resilient Homes

[33] National Emergency Management Agency, Disaster Ready Fund,

Program has included free property level assessments for any homes damaged in the 2022 floods.[34] This opt-in program provides homeowners with a free, detailed assessment report, including a comprehensive scope of repair works and an estimate of repair costs. This type of service should be made more broadly available for other households struggling with insurance affordability.

Recommendation

9. **Allocate financial assistance for mitigation measures Governments should allocate sufficient funding to assist property owners on low incomes and social housing providers in disaster-prone regions to undertake approved, cost-effective property-level mitigation measures.**

People in exposed housing need support.

While retrofitting and measures like raising homes plays an important role in protecting some people from risk, relocations and buybacks need to be considered for people that live in highly exposed areas. Coordination will need to occur across all governments to identify the areas most at risk and plan, in consultation with communities, to move them to safer areas. There is consistent agreement among stakeholders that local, state and federal Government land use planning needs to change to ensure we are not building homes in areas that will become exposed to climate perils in 10 or 20 years' time, but there is a lot less discussion around relocating homes that have already been built in dangerous areas even though this could have an important impact on the availability and affordability of insurance.

Community relocation due to natural hazard risk is not a new concept in Australia. Gundagai in New South Wales and Clermont in Queensland provide two historical examples of townships that were relocated after floods as both towns experienced severe loss of life.[35] In Gundagai, 89 people out of a population of 250 drowned in May 1851 (Australia's worst-ever flood in terms of loss of life) and 64 people drowned in Clermont on 28 December 1916.[36] Following devastating flash floods that resulted in the death of 12 people in Grantham, Queensland in January 2011, local council implemented a voluntary land-swap scheme to

[34] NSW Government, Department of Customer Service, 2023, The Flood Property Assessment Program
[35] King, D, Bird, D, Haynes, K, Boon, H, Cottrell, A, Millar, J, & Thomas, M, 2014, Voluntary relocation as an adaptation strategy to extreme weather events. International Journal of Disaster Risk Reduction, 8, 83-90
[36] ibid

relocate residents from the floodplain to higher ground and as of July 2013, 115 households had signed up to relocate to the new Grantham.[37]

As these examples illustrate, relocations have typically only occurred in the aftermath of devastating events. Governments must instead take a proactive approach to protecting communities in areas exposed to high risk.

Natural disasters cost Australia an average of $38 billion a year[38] and have a devastating impact on the mental health of people affected. Planned relocations and buybacks will help prevent future harm, taking people out of the path of natural disasters and lowering the cost of recovery for clean-up, emergency services and rebuilding of infrastructure.

Recognising that relocation and buybacks require coordination across all levels of government, National Cabinet should agree on a consistent framework for planned relocation. This could be modelled on the recent IAG and Rhelm report.[39] IAG and Rhelm recommended that a national strategy should cover:

- Key objectives and performance indicators for Planned Relocation Schemes.
- Models for Planned Relocation (e.g. buy-back and community relocation).
- Guidance on the planning, decision-making, implementation, and integration phases.
- Models for holistic community engagement, including specific considerations for First Nations People.
- Consideration of vulnerable community members, including people with a disability and the elderly.
- Guidance on land use planning and management, including the management of vacated land.

Governments need to provide funding for community-led conversations.

"I knew I was buying in a floodplain but did not want to risk being on the rental market. I begged, borrowed and stole to get across the line to get approval and pay off the house – I had stayed in less than-ideal rentals."*[40]*

[37] ibid
[38] Deloitte, Special report: Update to the economic costs of natural disasters in Australia, Australian Business Roundtable for Disaster Resilience & Safer Communities, 2021
[39] IAG & Rhelm, 2023, Planned Relocation Protecting our communities
[40] Quote from an individual, homeowner who was uninsured and experienced a flood in Kyogle, NSW. This person was interviewed as a part of CHOICE's social research interviews with 21 homeowners and renters. Interview conducted between January and April, 2023

"We moved to an area known to flood repeatedly. When we came in 2011, we knew that there had been previous floods, but did not know what that would mean."[41]

Governments should commit targeted funding to enable community consultations about how to respond to natural hazard risks in dangerously exposed communities. Community-centred consultation for people living in extremely exposed areas, before, during and after disasters, can help to reduce the confusion and stress that people typically experience. Governments involving communities in decision making will empower them and create better outcomes that reflect their needs and expectations.

Currently, community engagement is occurring on an adhoc basis, largely dependent on the strength of individual communities and local governments within the confines of existing programs such as the Queensland Resilient Homes fund and the New South Wales Resilient Homes Program. A consistent approach across Australia should be adopted with adequate funding to identify communities most at risk from natural disasters and involve them directly in the decisions being made about their future.

Consumer advocates consider the Queensland's Resilient Homes Fund as an effective example of governments supporting people in extremely exposed communities. The fund is a pool of $741 million available to Queenslanders in 39 local government areas whose homes were affected by the floods of 2021-22. It gives eligible homeowners the options to repair, retrofit, raise or demolish their home. For the most severely impacted people, who remain at a high risk of future flooding, there is also an option for a voluntary home buyback. As of late June 2023, 800 homes were deemed eligible for the buyback program, 370 offers had been accepted by homeowners and 238 homes were sold.[42]

The Resilient Homes Fund also involves local government in the management of the buyback scheme. Coordination across all levels of government is important in providing affected people with the support to recover and be more resilient for future extreme weather disasters. Appropriate community consultation is being undertaken to ensure people have their voices heard, understand their level of risk and are aware of their options. This model could be expanded across Australia in communities which are in exposed communities.

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[41] Quote from a male, homeowner who was insured and experienced a flood in Berkeley Vale NSW. This person was interviewed as a part of CHOICE's social research interviews with 21 homeowners and renters. Interview conducted between January and April, 2023

[42] Joint Media release, 2023, More Queensland homes to benefit from voluntary buybacks,

Recommendation

10. **Plan for relocation of communities at high-risk National Cabinet should agree on a clear and consistent approach to supporting relocation of communities that face high risk of natural disasters.**
11. **Fund community engagement Governments should provide funding for dangerously exposed communities to undertake consultations about ways to mitigate future risk, including the possibility of relocation.**

g) how the pricing of risk from climate-driven disasters can be better redistributed across the economy; and

Consumer advocates support some risk pooling and would support a less granular risk rating system for extreme weather-related risks. We support everyone in Australia that are not members of the hyper-mobile elite to have affordable access to insurance regardless of the risk. We fully recognise the arguments that it is better for individuals to pay a 'fair price' for insurance that accurately reflects individual risk, but we think that approach will simply force the most vulnerable in our society into even more vulnerable positions. If we want to have thriving regional communities then there needs to be some risk pooling.

We support the creation of Government reinsurance pools and participated in the consultation in 2021 that led to the Government's Cyclone Reinsurance Pool. While we supported the creation of the pool, we believe there are a number of changes that should be made to the Pool in order to ensure it will be successful at reducing insurance costs for consumer living in high-risk areas. For example, the Pool should do more to ensure damaged properties are funded to build back better like in UK. We will be participating in the statutory review of the Cyclone Reinsurance Pool in 2025.

While investment in mitigation, property buybacks and a revised approach to land use planning are critical, in the short term the Government and the insurance industry need to do more to help homeowners under most pressure. Risk-based pricing for flooding is where affordability issues for consumers has become the most acute. This is where socialised or pooled insurance measures are the most critical, at least while Australia transitions to a lower risk built environment.

Concluding Remarks

Thank you again for the opportunity to comment. If you have any questions or concerns regarding this submission please do not hesitate to contact Financial Rights on (02) 9212 4216.

Kind Regards,

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