INSURANCE COUNCIL OF AUSTRALIA

INSURANCE & COASTAL COMMUNITIES

- KARL SULLIVAN

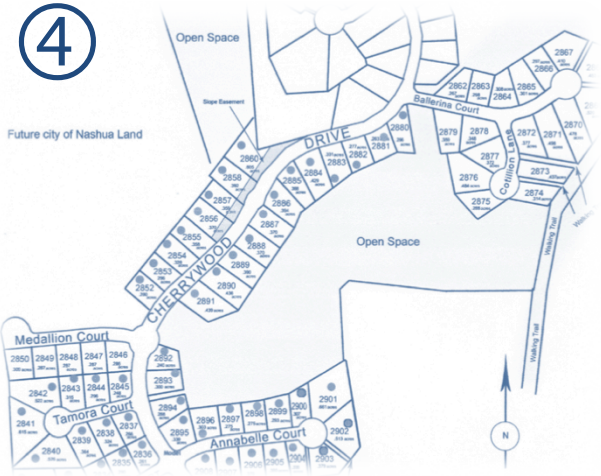
12 NOVEMBER 2010

..... IN THIS PRESENTATION

What is Insurance?

The Coastal Risk – Through an Insurers Eyes

What are insurers doing about the risk?



Policy reforms to manage the coastal risk.

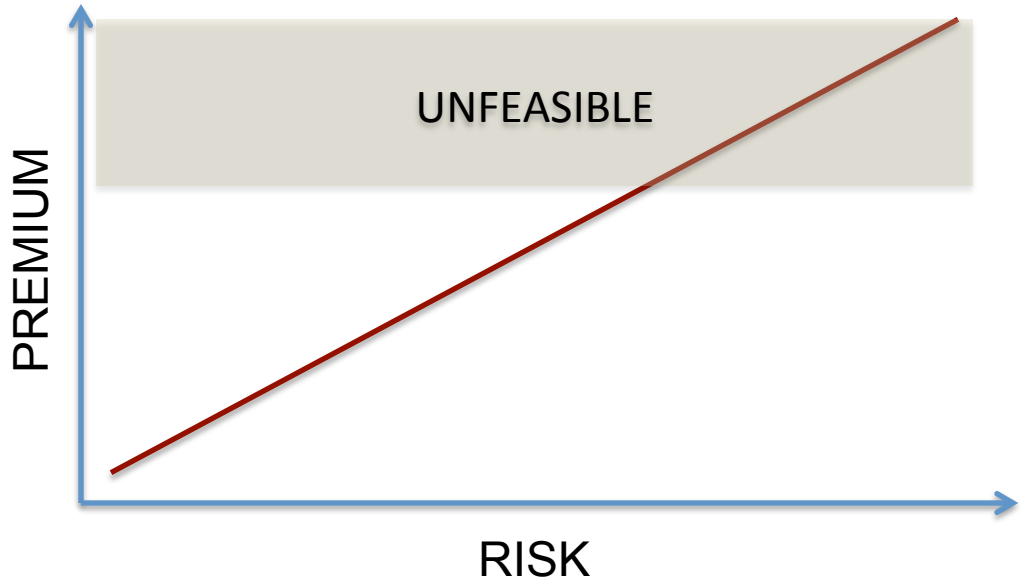
1. Approximately **7%** of properties are uninsured.
2. Approximately **28%** of contents are uninsured.
3. An average of **$108 million** is paid in claims per day
4. Over **98%** of claims made are paid.
5. Cover is available in Australia for all insurable risks.

Recent Events – Money delivered to the Community

Victorian Bushfire	10,201 claims	$1,010 million
Melbourne Hail	135,600 claims	$1,063 million
Perth Hail Storm	165,200 claims	$1,177 million

WHAT IS INSURANCE

1. A financial contract to provide relief to a policyholder, if and when defined events occur.
2. A premium is charged to cover the contract defined risks for a defined period to an agreed level of restitution.
3. The premium charged is proportional to the risk and the value of the compensation sought.



WHAT INSURANCE IS NOT

1. It is not an open ended financial agreement – there are financial limitations to every product, agreed through a policy document.

2. It is not a method to prevent an event occurring – asset owners are responsible for mitigating risk, and in many cases are required to do so under the policy.

3. It is not an agreement to cover all risks – there are exclusions in most policies that define events/issues that are not covered.

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RISK THROUGH AN INSURERS EYES

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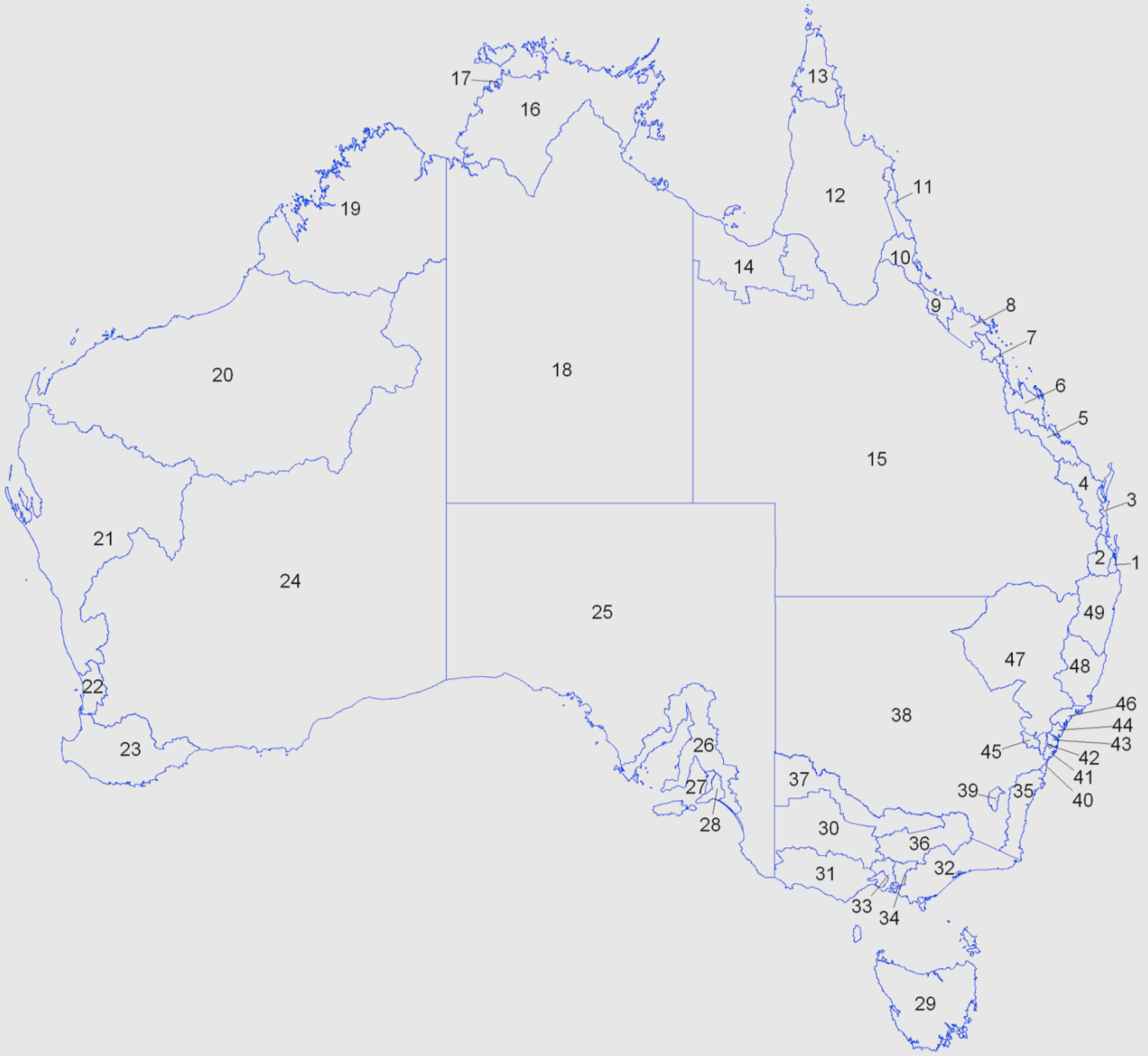
AN INSURERS VIEW OF RISK IN AUSTRALIA



1. 50 Zones of common risk & population, aggregating postcodes within.
2. Each zone is weighted for flood, storm & fire.

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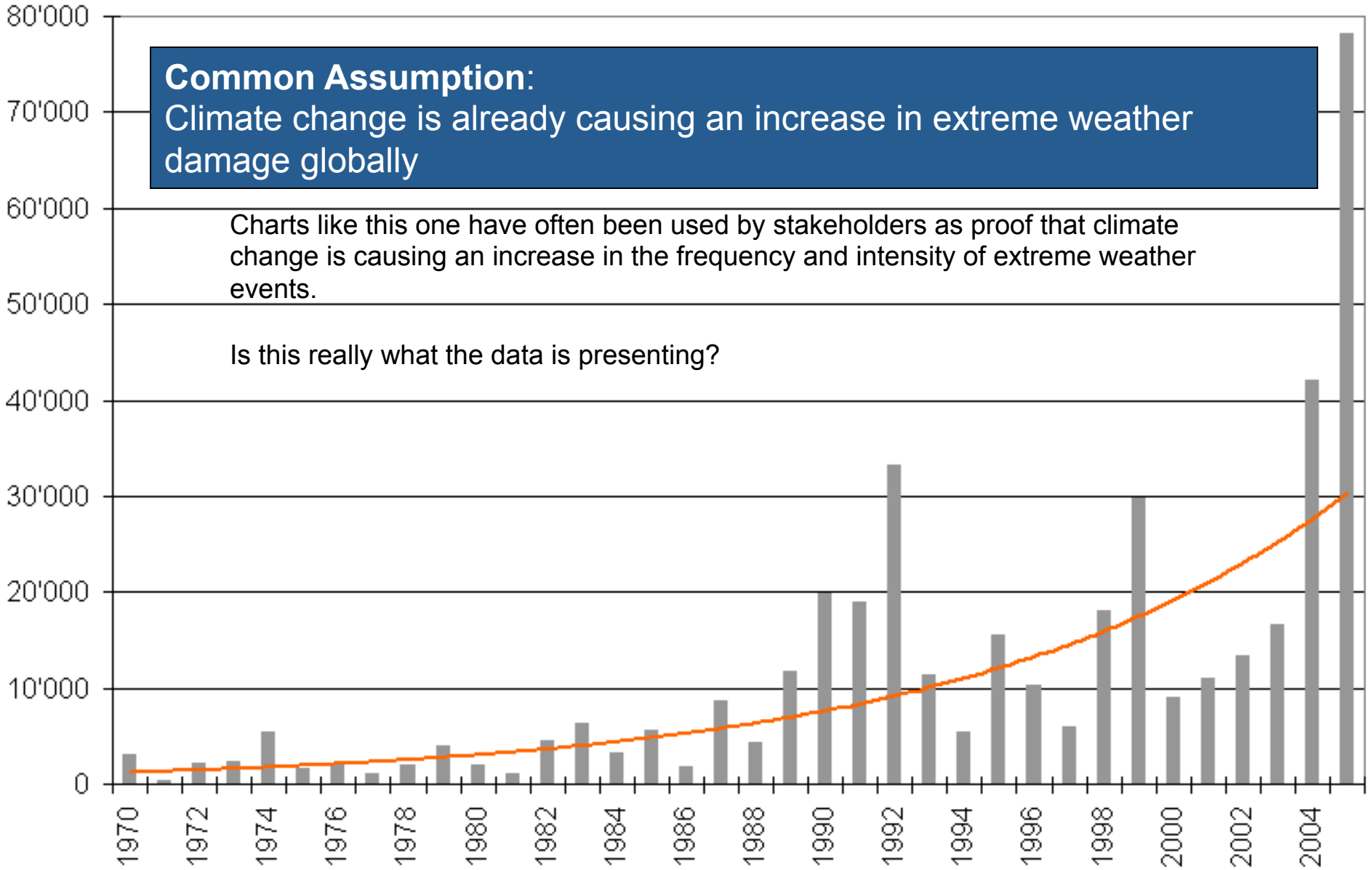
THE COSTS OF EXTREME WEATHER EVENTS ARE INCEASING

Common Assumption:
Climate change is already causing an increase in extreme weather damage globally

Charts like this one have often been used by stakeholders as proof that climate change is causing an increase in the frequency and intensity of extreme weather events.

Is this really what the data is presenting?



Source: Swiss Re sigma Catastrophe database

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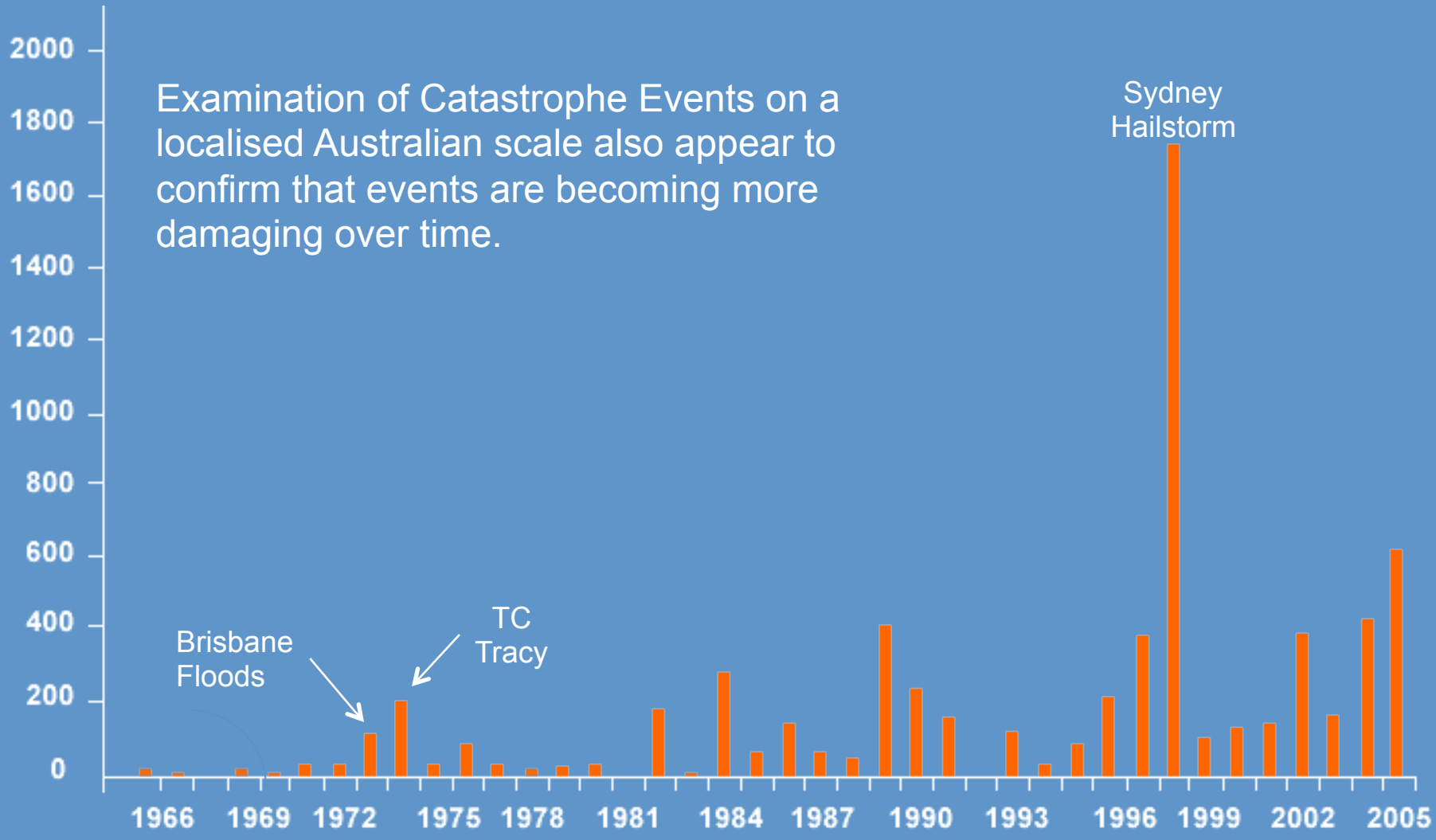
THE COSTS OF EXTREME WEATHER EVENTS ARE INCEASING

Examination of Catastrophe Events on a localised Australian scale also appear to confirm that events are becoming more damaging over time.



Source: Crompton and McAneney , 2008. *Environ. Science & Policy)*

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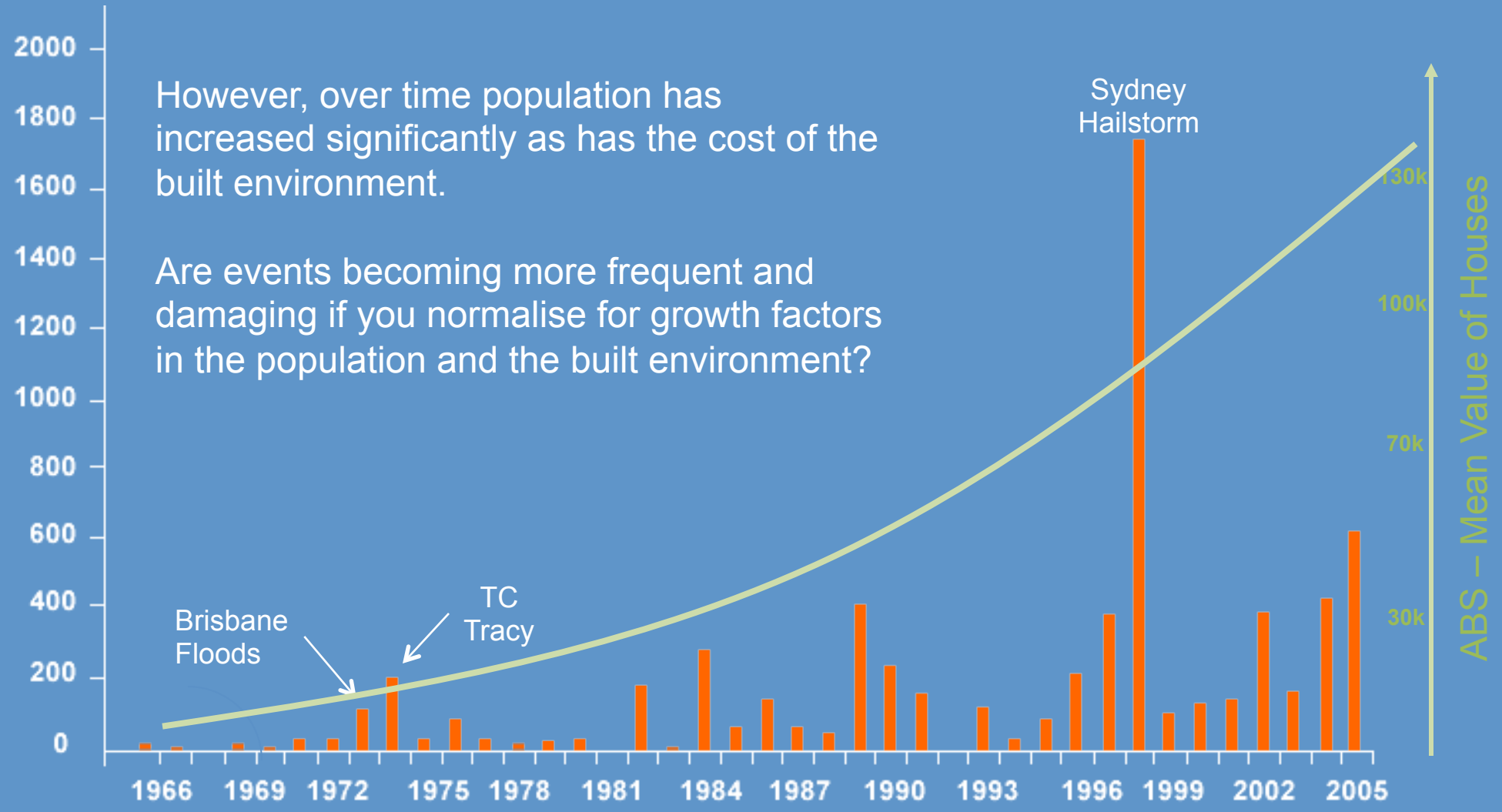
THE COSTS OF EXTREME WEATHER EVENTS ARE INCEASING

However, over time population has increased significantly as has the cost of the built environment.

Are events becoming more frequent and damaging if you normalise for growth factors in the population and the built environment?



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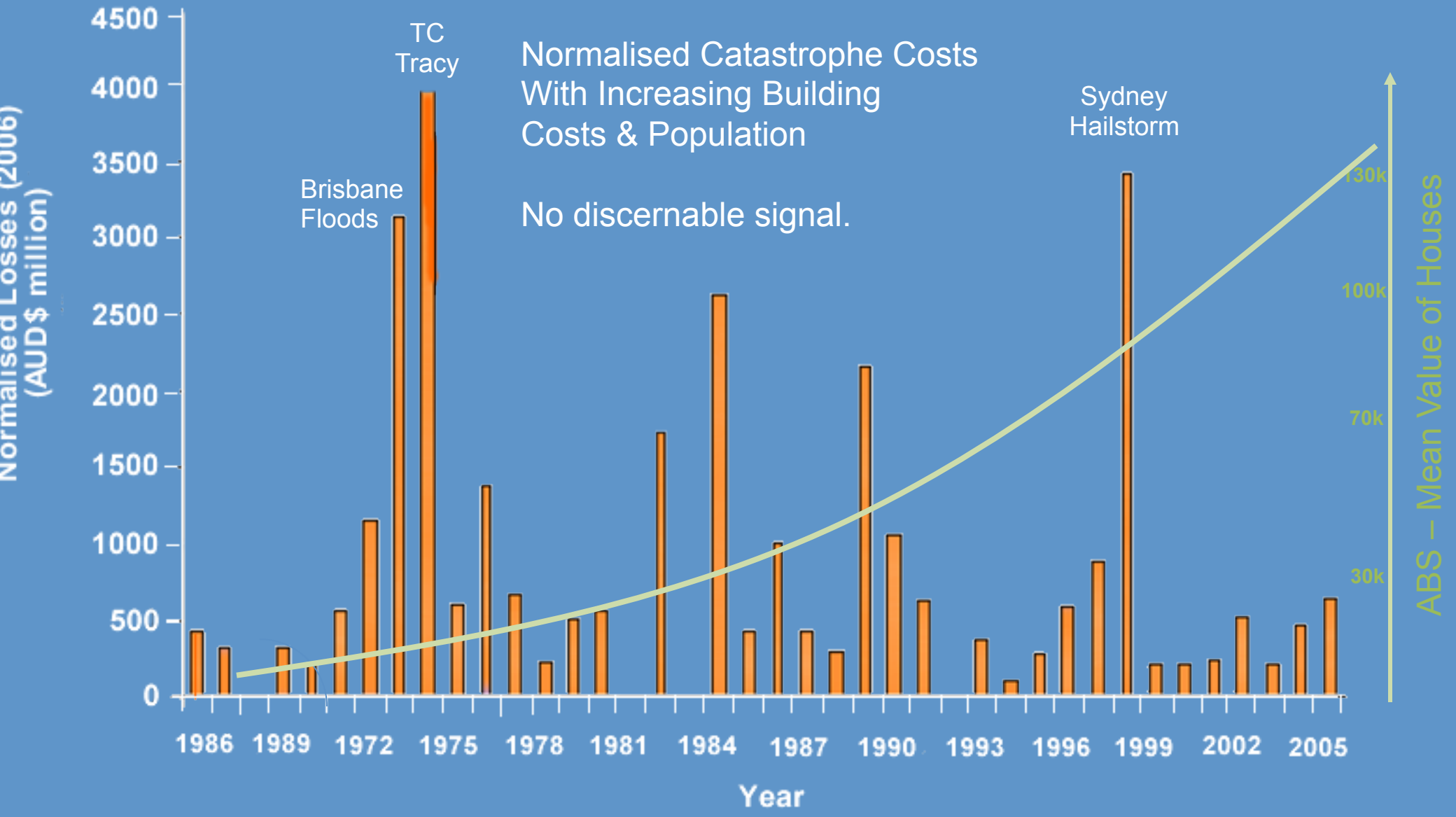


Source: Crompton and McAneney , 2008. *Environ. Science & Policy)*

Gold Coast QLD
Development in 1930

Gold Coast QLD
Development in 2007

The most significant factor driving the changing risk profile is growth in the built environment and population density ….

More $ at risk per Sq/KM

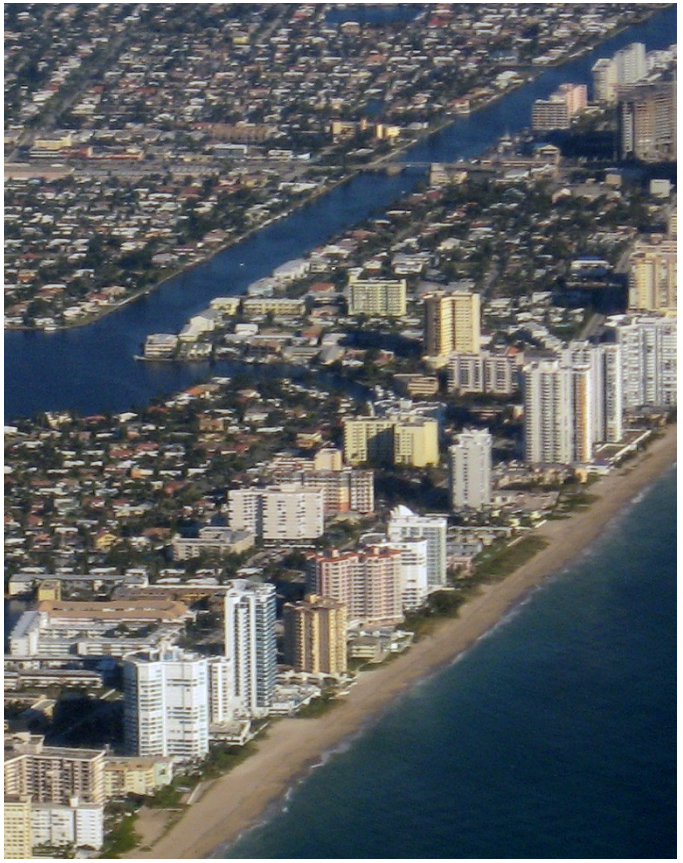
Rhodes NSW
Development in 1930

Rhodes NSW
Development in 2007

Miami Beach 1926

Wendler Collection

Miami Beach 2006



Joel Gratz © 2006

Adaptation of the way in which the built environment is constructed, taking into account the hazards present now and predicted over the life cycle of the property, is a critical issue for underwriters being asked to capitalise the risk.

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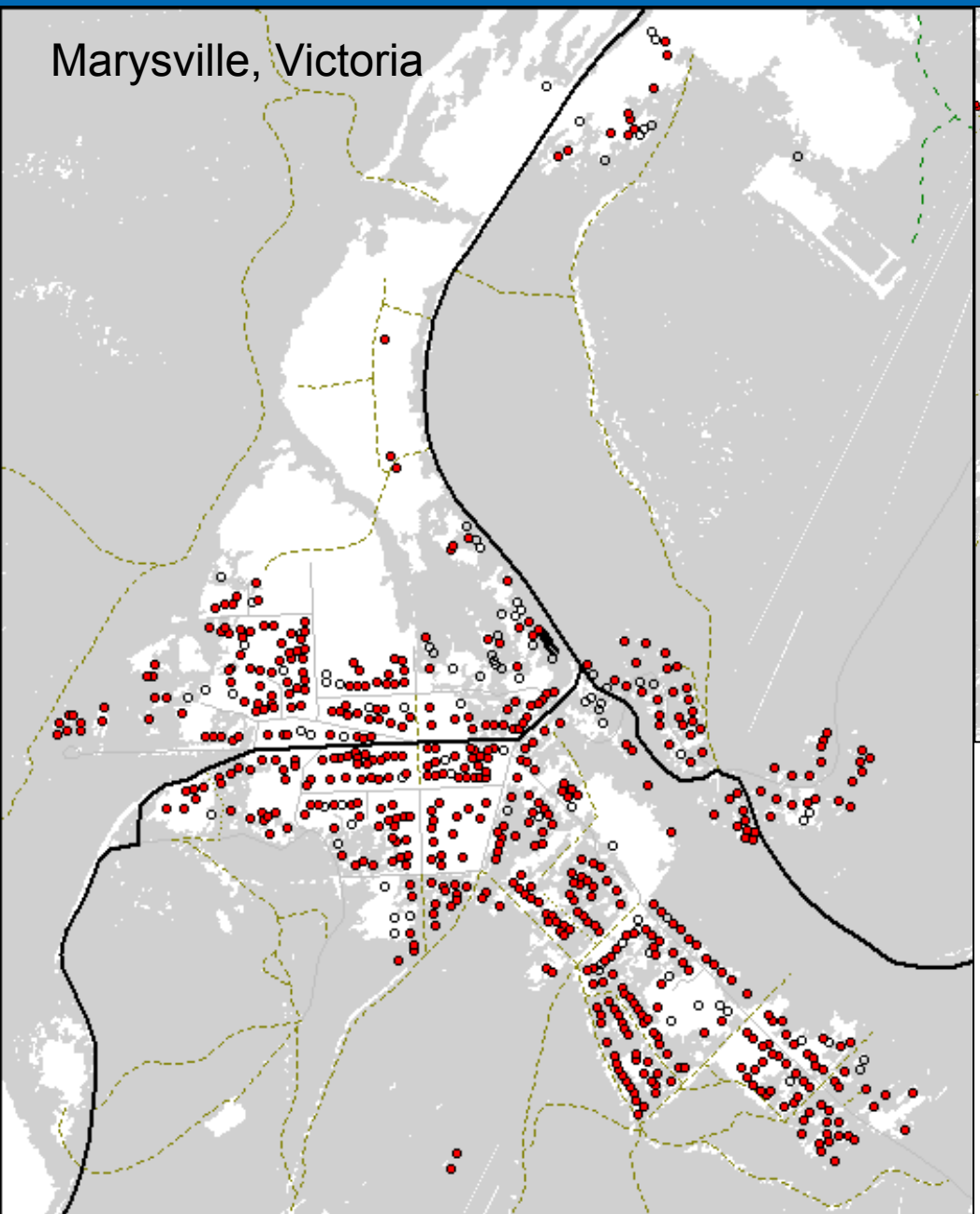
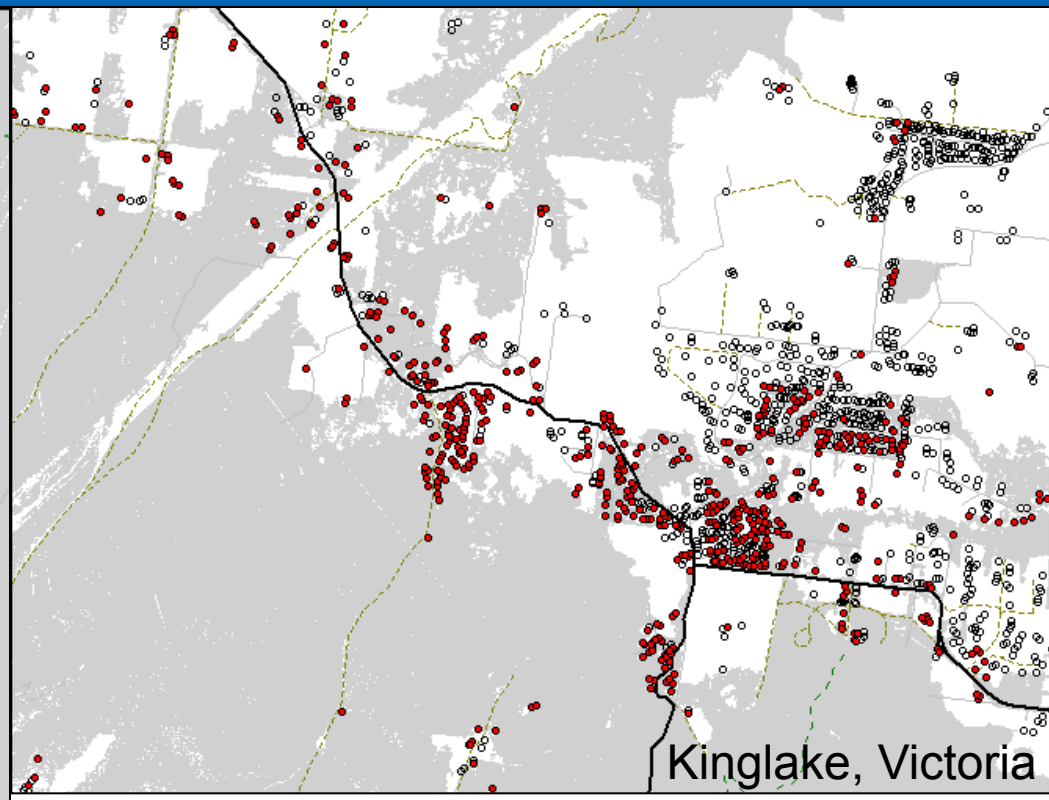
DO CONSUMERS UNDERSTAND THE RISKS?





25% of all homes destroyed were within 1 m of the bush

60% of all homes destroyed were within 10 m

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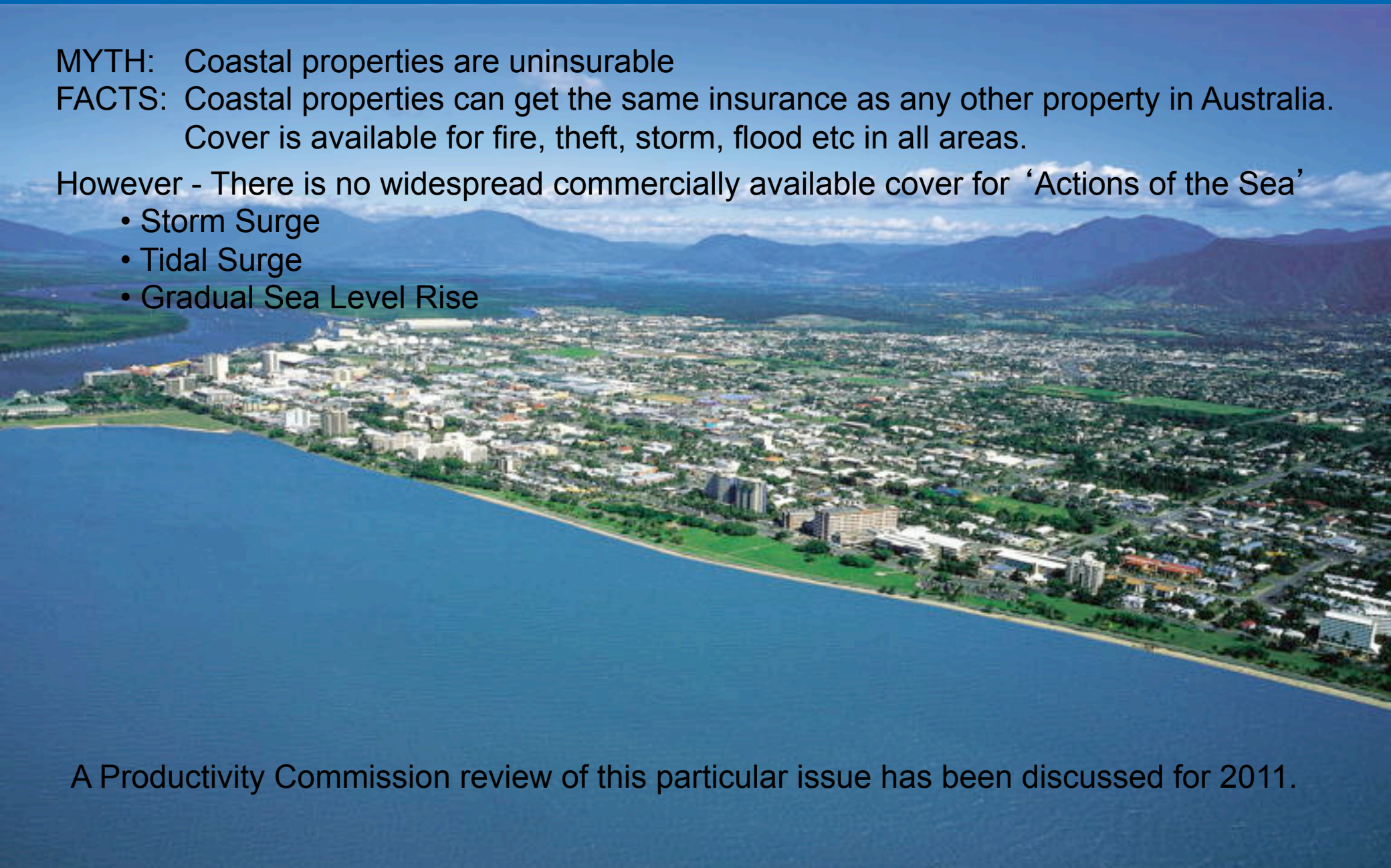
INSURANCE FOR COASTAL COMMUNITIES

MYTH: Coastal properties are uninsurable

FACTS: Coastal properties can get the same insurance as any other property in Australia. Cover is available for fire, theft, storm, flood etc in all areas.

However - There is no widespread commercially available cover for 'Actions of the Sea'

- Storm Surge
- Tidal Surge
- Gradual Sea Level Rise



A Productivity Commission review of this particular issue has been discussed for 2011.

WHAT ARE INSURERS DOING?

WHAT IS THE INSURANCE INDUSTRY DOING TO ADDRESS CHANGING RISK

1. Advanced risk modelling – adapting the pool to increased risk.
2. Exploring new capitalisation options.
3. Advanced catastrophe readiness.
4. Growing the insurance market – spreading the risk further.
5. Encouraging community resilience and government action on commercially uninsurable issues.

CHANGE TO GOVERNMENT POLICIES

ACTION: Create a National Agreement on Land-use and Planning Reform

1. Risk appropriate selection of land for development.

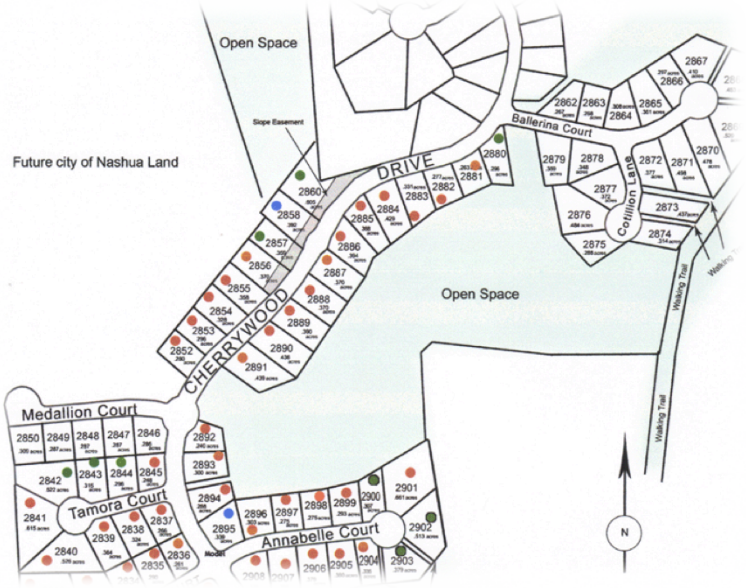
2. Ensure that new structures are constructed in a location and manner suitable both to the risks experienced today at that location and those risks predicted at the anticipated end of life for the property.

3. Many State Governments have already started taking action on this issue.

4. A National approach to land-use reform is necessary in order to balance the challenge of defending, retreating or re-zoning land that becomes untenable for use.

5. This must be done within a consistent framework across all jurisdictions to prevent inequities.

6. Governments through COAG should adopt a common framework for land-use and planning controls in all jurisdictions that give clear guidance to local planning authorities and the community.

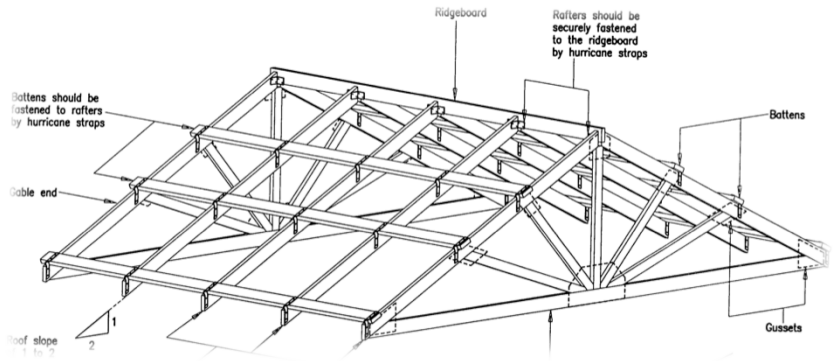


ACTION: Modernise the Building Code to include a requirement for durability

1.The Building Code of Australia does not include a minimum requirement for a building to be durable to weather hazards over its planned lifespan.

2.The Building Code only requires construction to be sustainable and safe.

3.COAG should amend the Building Code, to include a new role and purpose for the Australian Building Codes Board (ABCB) to provide .. ***a cost effective level of property durability designed to minimise the threat of hail, wind, flood and fire, to the economic value and sustainability of a property.***



Properties designed for durability are:

- Safer for occupants,
- A better investment for property owners,
- More sustainable over time,
- More resilient to extreme weather events,
- More likely to be offered affordable insurance in environments where risk is increasing.

ACTION: Create a New Mitigation Funding Model/Process

The present model for mitigation works, such as flood levies, relies upon equal funding from Federal, State and Local Government for each individual project to protect a community. The Federal budget for its contribution to critical mitigation works is less than $20million annually. A single mitigation activity may cost more than this in many cases.

In some instances if a local government can not afford to contribute to a project, or if one of the 3 layers of government are not convinced of the merits of the project, no mitigation works are undertaken.

The existing co-funding and prioritisation system should be modernised and funded appropriately.

A new government agency operating under Infrastructure Australia should be tasked to prioritise and fund critical mitigation infrastructure works over coming decades.

ACTION: Remove Taxation Disincentives On Insurance Products

1.Private insurance is a positive activity for individuals and the community. It allows those who insure to protect themselves against loss and prevents a subsequent burden upon the state.

2.Review of Australia's Future Tax System found, insurance taxation in Australia is amongst the highest in the world. The combined effects of stamp duties, GST and in those States that levy for emergency services, can grossly inflate the cost of an insurance premium.

3.Taxes on insurance serve to discourage the purchase of insurance or selection of the right amount of cover

$100	Base Insurance Premium
+ $72.00	*Fire Levy (Country Vic, Commercial)*
+ $17.20	*GST*
+ $18.92	*Stamp Duty*
$208.12	Total Payable

Questions?

Why is there an unquestioned acceptance that extreme weather must destroy or severely damage property in Australia?

Why do minimum building codes only prevent a buildings collapse and not a loss of amenity and value to the $3 Trillion Australian's invest in property?

Why do Australian building codes not incorporate measures to ensure the property is durable to predictable hazards from extreme weather?

Why do building regulators assume that all risks to a property can be insured in perpetuity regardless of how high the risk grows?

Why do governments heavily tax insurance products, and expect the community to still take up private insurance so they do not become a burden on the State?

Why do regulators assume that the trajectory of insurance premiums will not follow the same trajectory of unmitigated risks to Australia's increasingly brittle building stock?

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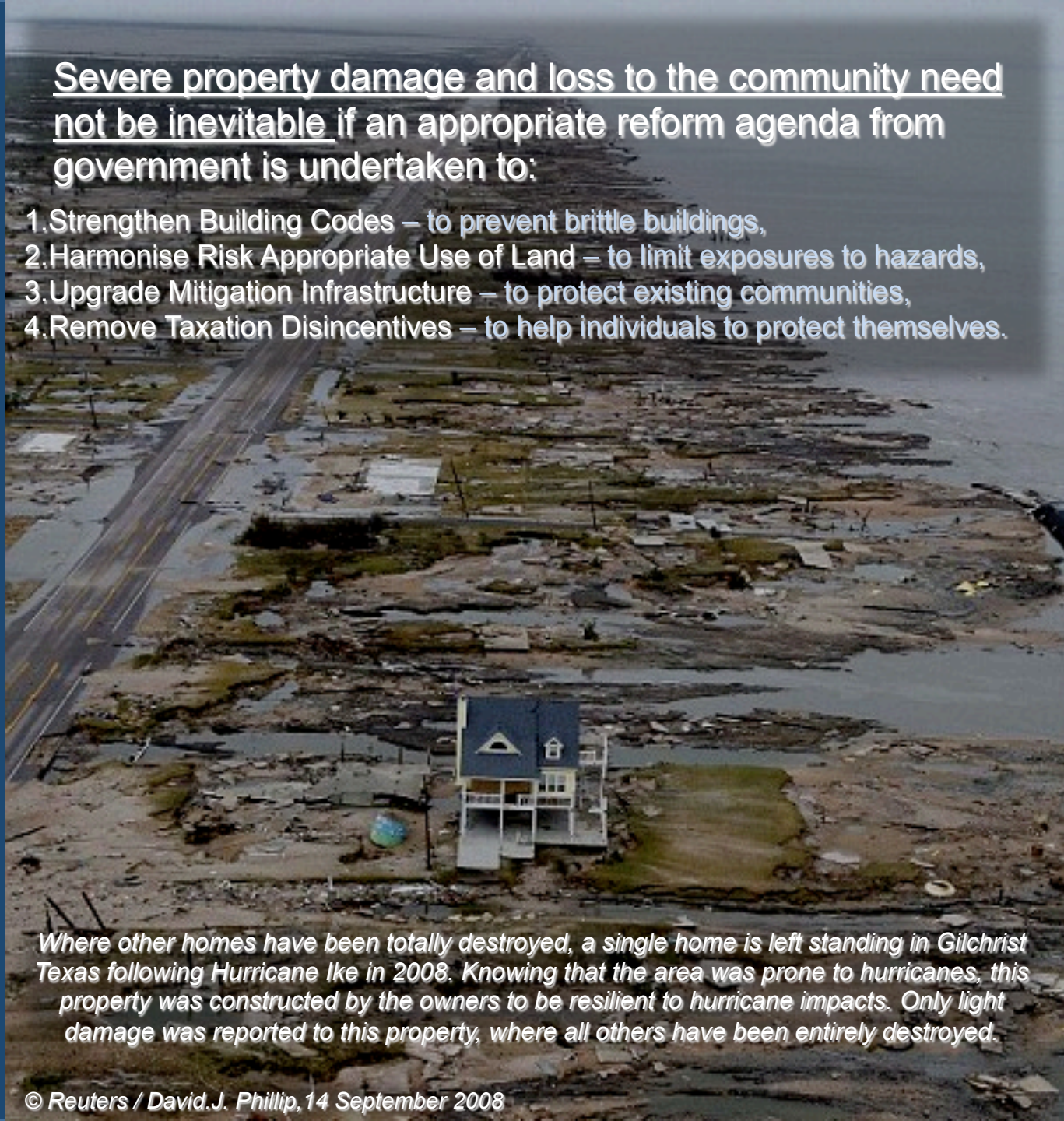
Severe property damage and loss to the community need not be inevitable if an appropriate reform agenda from government is undertaken to:

1. Strengthen Building Codes – to prevent brittle buildings,
2. Harmonise Risk Appropriate Use of Land – to limit exposures to hazards,
3. Upgrade Mitigation Infrastructure – to protect existing communities,
4. Remove Taxation Disincentives – to help individuals to protect themselves.



Where other homes have been totally destroyed, a single home is left standing in Gilchrist Texas following Hurricane Ike in 2008. Knowing that the area was prone to hurricanes, this property was constructed by the owners to be resilient to hurricane impacts. Only light damage was reported to this property, where all others have been entirely destroyed.

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