AIDA LISBON MEETING – April 2013

CLIMATE CHANGE and INSURANCE WORKING PARTY

Australian Report -

Since the last report in 2012 there have been a number of significant developments namely :

1. Industry adoption of a standard definition of flood for Home and Contents , Strata and landlords policies and Small Business insurance

“Flood means the covering of normally dry land by water that has escaped or been released from the normal confines of any lake ,or any river , creek ,or other natural watercourse , whether or not altered or modified , or any reservoir, canal or dam “

1. The definition embodied in amendments to the Insurance Contracts Act regulations (Insurance Contracts Ammendment Regulations (2012) No 1Australian insurers have until June 19th 2014 to enact the change in definition.
2. Industry generally, has embraced the definition and it is now included in the prescribed contracts issued by many of our major insurers covering the flood risk.
3. The Insurance Council of Australia continues to maintain the position that a standard definition is merely one part of a much wider issue

“Urgent investment in permanent, well designed physical mitigation measures – such as, levees, barrages , flood gates and improved drainage – are still required . Govts should consider other measures in line with the industry recommendations to tackle natural disasters , including better land use planning , improvements to flood mapping , modernising the building code to improve the durability of property to natural hazards and removing all insurance taxes to help make insurance more accessible .

1. Industry and Government have ruled out any premium subsidies for policy holders in high risk flood zones , and ALSO to NOT make it compulsory for all household policies to offer flood cover
2. Flood premiums continue to be priced on a risk basis, accordingly many areas are attracting very high premiums for flood cover.
3. Many rural based risks continue to have no flood cover as little or no adequate flood mapping is available to enable the risk to be assessed and priced.
4. Quality of data on flood mapping remains an issue of concern Australia wide, particularly in rural and remote areas.
5. Premium costs remain an issue of concern despite steps by some states to abolish certain stamp duties on policies to make cover more affordable - FSL (Fire Services Levy )

Huge premium increases particularly for Strata Insurance in Far North Queensland in relation to Cyclone related risks

1. Govt attempts to make flood risk data more readily available – Launched in November 2012 -NFRIP ( National Flood risk Information Portal ) A federal govt initiative through Geo Science Australia to provide Australians with specific data concerning flood risk in a given area to enable them to make well informed decisions about where they choose to buy a house . The flood mapping data is being provided by both Geoscience Australia, local and regional authorities and flood data held by the industry .Unfortunately it still appears left to local govt to determine housing location approvals and flood mitigation strategies .Financial constraints clearly impacting on flood mitigation strategies and implementation. No uniform Australia wide approach. Power to act and implement continues to reside with state governments. The problem that still remains is that while insurers expand the availability of flood insurance ,Governments ,( federal, state and local) will view this as an insurance issue and fundamental reforms to land use planning will languish .
2. Despite Australia experiencing a very hot dry summer (breaking 123 weather related records) insurance catastrophe related losses not as high as anticipated.
3. AIR Worldwide has conducted Bushfire modelling for Australia and updated its local tropical cyclone and earth quake models. The updated models now account for regional differences in construction practices, as well as building code evolution and enforcement. Both models feature property and BI losses to complex industrial facilities.

Australia’s Climate Commission reported new records – “Extreme heatwaves and catastrophic bushfire conditions ... were made worse by climate change “ ( Commissioner, ANU Professor Will Steffen ) .. even more surprising is that the records have been broken outside an El Nino cycle – a period of warm , dry conditions that raises temperatures .

1. Despite conditions the 2012 -2013 Bush fire experience not as bad as anticipated.
2. Public and Government concern relating to the escalating cost of insurance – A desire to achieve affordable rates in the light of increasing catastrophe related losses. In order reduce insurance premiums, state governments are proposing changes to the Fire Services Levy, currently only paid by those who insure .On 1/7/2013 the Victorian Government will abolish the Fire Services Levy on Insurance premiums. From July 1 all land owners will be charged the new Fire Services Property levy, when they receive their council rates.

Other states will introduce similar changes

1. THE BAD NEWS ......More disturbing is the results of a survey undertaken by Australian Actuaries Taylor Fry ....

“Only 65 % of Australian Insurers have adopted the formal position that climate change is a reality. “ (Evelyn Chow – Actuary and Jessica Egan – Actuarial Analyst)

The survey involved 26 insurance companies representing 70% of all licensed general insurers in Australia ( including 19 general insurers , 4 reinsurers and 3 government insurers ) 8 small insurers surveyed are most sceptical about climate change . Of 8 mid- sized companies surveyed 3 do not have a formal stance and are taking no action , while 2 have not taken a formal position , but are taking action . All 3 govt insurers and all 7 large insurers questioned believe climate change is a reality and are actioning behaviour accordingly.

73% of insurers believe climate change is impacting weather events and losses. – windstorms, hail , storm surges , floods , cyclones and bushfires .

 However only 50 % of insurers are reacting to or preparing their business for climate change, the survey indicated.

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