Swiss Re

Partnering for progress

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Flood Insurance Enquiry Submission

Dear Daniel,

Thank you for inviting Swiss Re to provide its own views that may assist The House of Representatives Standing Committee on Economics review into aspects of flood insurance.

We welcome the initiative to broaden engagement to reinsurers, given the key role this segment of the insurance industry plays in maintaining a sustainable Australian insurance sector. As requested, we submit to the Committee for your consideration our insights and views on (1) affordability, (2) emerging/growing trends related to climate change and (3) opportunities for public/private sector collaboration.

About Swiss Re

Swiss Re Group is headquartered in Zurich, Switzerland, where it was founded in 1863.The Swiss Re Group operates through a network of around 80 offices globally.

In Australia and New Zealand, Swiss Re provides Life & Health and Property & Casualty reinsurance to some of the region's largest insurers. In addition, we provide traditional and innovative risk transfer solutions to corporate clients in Australia & New Zealand and maintain a legacy book of Life business.

For the Group and for the Australian branch, Property and Casualty business underwritten natural catastrophe risk is a core line of business.

(1) Affordability

Australia is particularly prone to the impact of climate change and as a result, we are seeing more extreme weather-related events. Global increasing temperatures drive increased moisture and intense rainfall. Reinsurers are unlikely to exclude flood in the near term, however our pricing will reflect increased flood trends. Furthermore, reinsurers are strong in their resolve to avoid the frequency losses (arising from weather loss trends) that in the past decade had been transferred at inadequate pricing from insurers to reinsurers.

Actuaries Institute recent research[1] shows flood is the key peril which drives insurance unaffordability, which impacts the lower socioeconomic households the most. Unaffordability of home and contents insurance has worsened to 1 in 8 households in 2023 from 1 in 10 households in 2022.

The increasing frequency and severity of global natural catastrophes combined with increasing inflation is challenging the accessibility, availability, and affordability of insurance. The growing protection gap is an important societal issue that requires development of more flexible and efficient re/insurance solutions and urgent government action.

Australia is an important market for Swiss Re. Reinsurance needs to be sustainable for there to be sustainable insurance. We continue to have appetite in Australia to cover many perils across the diverse geography of the nation, however the price needs to adequately reflect the increased risk that is being transferred due to increased hazards, urbanisation, inflation and increased costs of materials and services.

Re/insurers price the risks. Governments, communities, and individuals need to reduce the risk. The evolving changes in the risk landscape are captured in the risk models used by insurers and reinsurers and transferred into re/insurance pricing to cover the expected claims of policyholders in their coming contract periods. To succeed, re/insurance relies on effective risk diversification and risk pricing. Policy measures may lead to adverse price signals, furthermore those that suppress market price signals (e.g., capping of risk premiums) can lead to undesirable outcomes, e.g., reduced coverage offered. The result can be increased protection gaps and weakened corrective capability of markets.

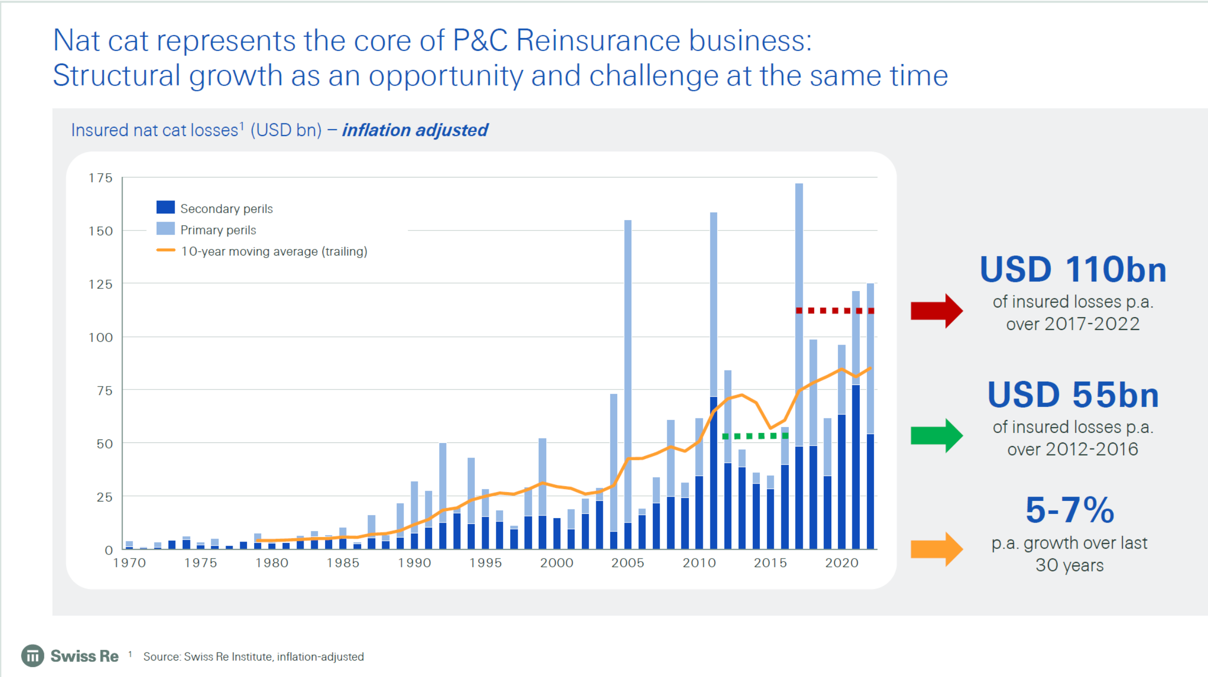
There is a need for Governments to assist policyholders to manage and reduce risk to maintain affordability, accessibility and availability wherever possible. Insurability of climate risks is ultimately dependent on preventive measures, adaptation investment and other actions such as socioeconomic policies, zoning laws, and geographic/spatial planning.

A combination of mitigation and adaptation is required with risk reduction central to any measures undertaken. Risk reduction is the only way to lower the risk and therefore improve affordability. In particular, building resilience of communities, steering them away from risks through strengthening of building codes and better land use planning which take into consideration the changing climate over multiple decades.

(2) Emerging/growing trends related to climate change

The state of the natural catastrophe re/insurance market as at 2023 showed that benign activity between 2012-2016 led the market to underestimate the true annual loss costs globally (and in Australia), and updated risk models are needed to digest the USD 100bn + of annual claims in re/insurance. [2]

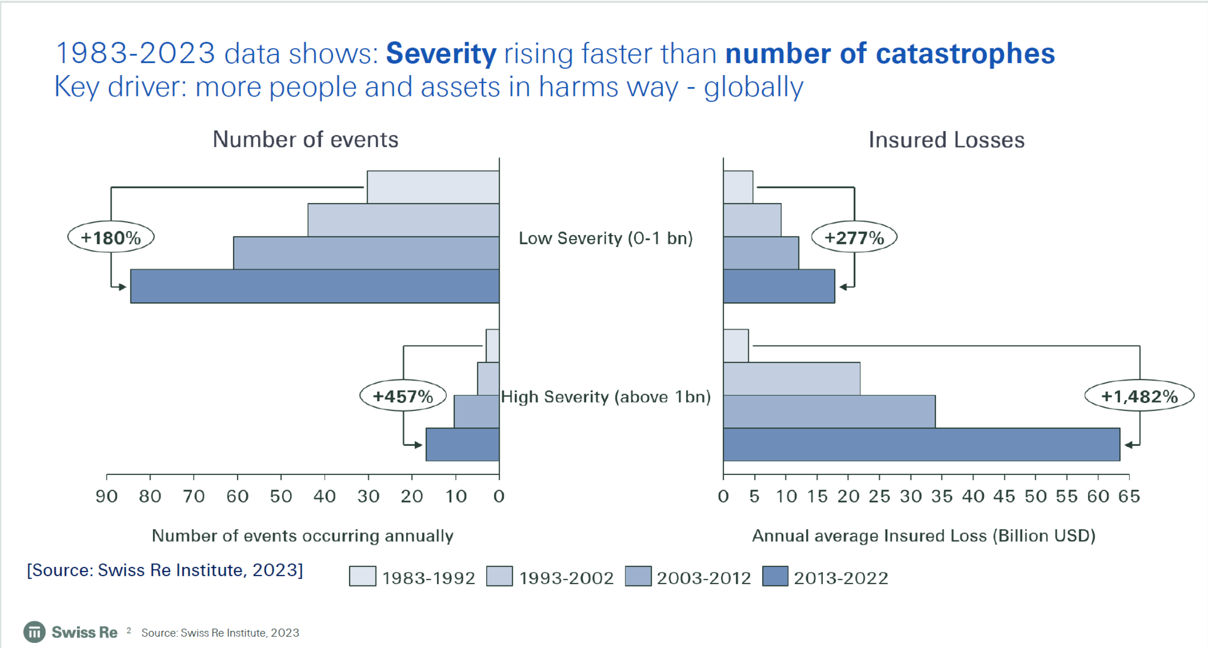
[1] Funding for Flood Costs: Affordability, Availability and Public Policy Options (actuaries.asn.au)
[2] Natural catastrophes and inflation in 2022: a perfect storm - Swiss Re sigma | Swiss Re



At a high level, it is noted that insured Nat Cat losses keep growing at a fast pace. Mostly severity, but also frequency of Nat Cat losses increases steadily at 5-7% p.a. net of inflation, over several decades. Climate change, but even more so value growth and urbanization in harm's way e.g., on coastlines, former flood zones and into the wilderness, turn extreme weather into ever larger insurance losses when affecting urban centres.

As a point in case, the USA population has been growing in past 50 years by 60%, Florida's population by 220%, and the coastal stretch of Hurricane Ian's landfall by more than 600%. On the back of robust exposure data and cat model driven risk management practices, the re/insurance industry has built strong tools to weather such massive insured losses for peak perils like US hurricane.

Our research shows that insurability and affordability of insurance is not endangered at large. In the last three decades, the industry has absorbed an inflation-adjusted loss burden that has increased by a factor of 10.



(3) opportunities for public/private sector collaboration

While it is the expected role of governments to protect people and the environment against harm, re/insurers can provide risk insights and capacity on climate risk mitigation and engage with governments to support their cost-benefit analysis on climate adaptation measures.

Re/insurers play an important role in building resilience, narrowing the protection gap and supporting the net-zero transition. For example, Swiss Re plays three key roles:

1. As an insurer:
   - providing risk insights and expertise, based on global datasets, research and experience;
   - providing risk capacity through risk transfer – and innovative insurance solutions that support the public sector and developing markets;
   - working with our clients and industry, setting conditions of cover and risk management expectations.
2. As an investor, who considers engagement with the real economy as an integral part of its contribution to limiting global warming to 1.5°C and providing capital to finance the transition
3. As an organisation leading by example by reducing our own operational footprint and developing innovative approaches such as the internal carbon levy to move from carbon offsetting to carbon removal.

Governments can work with re/insurers to facilitate innovation and change in a number of ways:

1. Government as an insurance buyer:
   - using insurance to optimise sovereign budgets and creating financial stability;
   - ensuring funds are available for fast recovery and post event needs;
   - freeing up capital to invest in social infrastructure, environmental restoration etc

2. Government investment in risk management and adaptation:
   - helping insurance to remain accessible and affordable;

- protecting communities and economic stability by reducing risk;
- advocating and incentivising proactive management of risk.

3. Creating an enabling environment – with appropriate incentives and regulatory supports:
   - enabling access to a broad range of insurance solutions and providers, especially parametric / index-based solutions

When designing policies and regulations, governments should consider how to best incentivize positive action, support the re/insurance industry to implement solutions and advance opportunities that help address the underlying issues in support of the transition to net-zero and to build societal resilience.

Insurance regulators should further discuss their policy measures with the real economy regulators to make policy measures applicable across value chains. For climate-related risks and opportunities, a collaboration across sectors to find the best solutions might be a key success factor. A consistent regulatory environment can be conducive to acceleration of sustainability-related solutions and opportunities more broadly.

We welcome the opportunity to discuss our views further as needed.

Yours sincerely,

Andrew Davidson,
Senior Client Manager P&C and Public Sector ANZ
Swiss Re Asia Pte. Ltd.