

17th February 2022

Submission to the Inquiry into the Cyclone and Flood Damage Reinsurance Pool

Australia is a land that is exposed to many weather events and natural disasters, from cyclones to floods to bushfires and other. We are also vulnerable to the impact of the climate crisis, with many of these events becoming more extreme and more frequent. This leads to great concerns for communities that are exposed to these natural disasters and how they will cope with their impacts and trying to recover. This includes being able to afford insurance to cover the costs of recovery. Recovery is made harder by extreme weather events often causing severe damage that forces people to move and disrupts businesses from returning to operation from an extended period. This can have a devastating effect on communities. There are concerns for access to insurance by households and businesses in disaster prone areas. The irony being that the people who need insurance most (i.e. those most exposed to disasters) are also the people who find it hardest to access affordable insurance, since the commercial interests of insurance conflict with needing to pay out more frequently. Because of affordability concerns, some households and businesses may choose to accept higher excesses (what they need to pay above an insurance payout to meet damages) or decline to get insurance altogether. This can leave them vulnerable to extreme costs if they suffer a disaster event.

The government has a good potential in overseeing an insurance scheme that can be more effective and affordable for the community. There are various options canvassed by the government in their explanatory memorandum. This includes: not proceeding with a scheme; having a scheme based on mandatory insurance uptake; and having a scheme based on voluntary insurance uptake. There are good reasons given for a government backed insurance scheme. A government based pool would provide cover at lower costs, by forgoing a commercial interest to make a profit and in being able to take a long-term view about the costs from natural disasters and insurance payouts (rather than always needing to make a profit in the short-term). It would also be backed by the government's finances, so would not need to charge a premium to ensure liquidity. Mandatory participation would enable the government to deliver the lowest premiums, upholding the affordability aim, by spreading the risks across high risk and low risk

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portfolios. Voluntary participation would also help affordability, as the incentive to sign up with the government would be where insurance can be gained cheaper than on the private market. However, the cost reduction may not be as high than with the mandatory option. I am inclined towards making the system mandatory, but both mandatory and voluntary options would be positive steps forward.

I also agree with the policy suggestion to have a removal of stamp duty on insurance services. We should encourage broad uptake of insurance so that communities can be more resilient against natural disaster impacts i.e. from having insurance payouts to cover damages. Having a different type of tax that does not disincentive people from getting insurance would be better.

It does need to be considered in a context of a broad response to climate change. This includes strong action on mitigation and global cooperation (with each country contributing a proportionate amount of emissions reduction based on the scientific advice). Communities will also need to adapt and build resilience against extreme weather impacts, which may include consideration of building design and town planning (how and where we build). I note that the Government has established a new National Recovery and Resilience Agency (NRRRA) to meet some of the challenges posed by natural disasters, which is one positive step. The explanatory memorandum also recognises the importance of mitigation of natural disaster risk, such as building infrastructure such as levees and dams or making households more resilient. However, it overlooked the importance of climate mitigation - that is, reducing the emissions that are worsening and will continue to worsen the natural disasters that we are seeking to insure ourselves against with this scheme. Why the government clearly recognises that there is a threat posed by natural disasters to which we need more response to, not recognising and responding to the underlying climate crisis is wilful (and costly) ignorance. Insurance is an important measure; hence this Bill is a one good for what it is designed to do, but it may soon become overwhelmed by the impacts of the climate crisis without effective mitigation and adaptation as well.

Kind Regards.

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