

SENATE FINANCE AND PUBLIC ADMINISTRATION REFERENCES COMMITTEE

LESSONS TO BE LEARNED IN RELATION TO THE AUSTRALIAN BUSHFIRE SEASON 2019-20

QBE

QUESTION 1:

CHAIR: I want to come to some of the mitigation issues but, firstly, on this taxes and duties question, you're not the only industry group to come before a Senate committee and argue for lower charges and taxes from the Commonwealth and states. What work have you done on the amount? How much revenue would be foregone if your proposals were adopted for the Commonwealth and states? The emergency services levy in New South Wales funds a substantial proportion of emergency services. What have you to say about the amount of revenue that would be foregone and where do you say that revenue will be recovered?

Mr Miller: I think, in terms of New South Wales and the ESL, like other states it will be a change in the way it's taxed rather than a reduction in taxation revenues. The key thing with ESL is it's levied on top of the risk based pricing already, so it's around equity, in terms of people who live in high-risk areas, them paying more in the tax. I guess that's one thing that prohibits affordability. Also the economic reality of areas that are higher risk are usually outside metropolitan and regional areas, and there's an overlay there as well. So it's around how you levy that tax base in a way that's more equitable and eliminates underinsurance. I think that's the issue there.

In terms of GST and the stamp duty, I don't have any numbers to hand, Chair, that I could share with you on those two items.

CHAIR: Would each of you be in a position, on notice, to provide that material to us, the overall amount?

ANSWER:

QBE refers to a report by the Insurance Council of Australia (ICA), the representative body of the general insurance industry in Australia, "The impact of government duties on household insurance" published on 22 November 2019 (the **ICA report**). The ICA report is available at http://www.insurancecouncil.com.au/assets/submission/2019/112219_ICA_Paper_Impact-Govt-Duties-Household-Insurance.pdf.

The ICA report indicates that over the past 12 years (2007-08 to 2018-19), insurance taxation revenue collected by state and territory governments totalled \$54.7 billion, with NSW collecting the most revenue at \$18.2 billion. Future forecasts noted in the ICA report include an increase in NSW Emergency Services Levy requirements by an additional \$230 million between 2018-19 and 2021-22.¹

¹ This relates to insurer contributions, not council contributions. Refer NSW Government, *NSW Budget 2019-2020 Half Yearly Review*, page 9, available at: <https://www.budget.nsw.gov.au/sites/default/files/budget-2019-12/2019-20%20Half-Yearly%20Budget%20Review%20%281%29.pdf>.

The ICA report also cites research from 2015 indicating that replacing all insurance-based taxation in all states and territories with a broad-based property tax would lead to a net increase in tax revenue collected by state, territory and local governments of \$575 million after five years.

QBE also refers to the ICA submission “Review of Federal Financial Relations – Draft Report” published on 31 July 2020 (the **ICA submission**). The ICA submission is available at: http://www.insurancecouncil.com.au/assets/submission/2020/2020_07_31_SUB_NSW%20Review%20of%20Federal%20Financial%20%20Relations_FINAL.pdf.

The ICA submission supports the draft recommendations of the draft report “Federal Financial Relations: Supporting the road to recovery”, released on 1 July 2020 and available at: <https://www.treasury.nsw.gov.au/sites/default/files/2020-06/FFR%20Review%20Draft%20Report%20.pdf>. These recommendations relate to removal of all specific taxes on insurance and consideration of both a levy on property owners combined with a broad-based land tax.

QBE

QUESTION 2:

CHAIR: APRA has written to all of you to advise it's going to begin climate change financial risk vulnerability assessments. Can each of you take me quickly to what vulnerabilities APRA is looking for? I might start with Suncorp.

Mr Miller: I will have to take that question on notice. I'm sorry, I'm not over that work.

CHAIR: Are any of you in a position to deal with the risks that APRA's trying to assess in this program?

Mr Gallagher: Chair, we at IAG will take that on notice as well.

CHAIR: Would each of you be able to take that on notice for me?

ANSWER:

QBE refers to APRA's letter to all APRA-regulated entities, "Understanding and managing the financial risks of climate change" published on 24 February 2020. This letter is available at: <https://www.apra.gov.au/understanding-and-managing-financial-risks-of-climate-change>.

In respect of the climate change financial risk vulnerability assessment, APRA's letter states the assessment will include an estimate by entities of the potential physical impacts of a changing climate, including extreme weather events, on their balance sheet, as well as the risks that may arise from the global transition to a low-carbon economy.

QBE

QUESTION 3:

Senator SCARR: ...When you're looking at the different regions that have been impacted by bushfires, to what extent can you practically drill down to individual properties and make assessments without having access to that BAL data? In the absence of that, how do you drill down to a particular region which can be quite different? How can you practically drill down to those regions and assess risk without having access to those BAL ratings?

Mr Ly: At this stage we can drill down to a bushfire zone level, which can be a bit generalised. That is why we endorse making the BAL rating more transparent and more—

Senator SCARR: Sorry to interrupt, but I have limited time. How big would those bushfire zones be, practically? What sort of area would they cover?

Mr Ly: I don't have that information on me.

Senator SCARR: Is it possible for you to take that on notice? I will put that question to all of you. One of the issues that has been raised with me is a concern that the process is somewhat opaque from the point of view of the customer. We've raised and ventilated the BAL— bushfire attack level— issue, and I think it's really good that we've got a lot of good evidence with respect to that. But I'm interested to know, in the absence of that data being freely available to you, at what level you are making these decisions in terms of bushfire zones. How big are the areas that you're looking at—or to what extent can you drill down to street by street or property by property? Is it possible for you to take that on notice and provide some further commentary? I think it would be useful for me as a senator, in progressing the bushfire attack level information dissemination, to know what information you can currently use to make those assessments.

ANSWER:

A range of relevant factors are considered by QBE in premium pricing. When assessing premiums for individual property risks, factors that may be relevant, and are typically considered, include the construction of the property, occupancy, the sum insured and any relevant natural hazard risk (including bushfire risk) of the individual property.

When considering natural hazard risk as a factor, QBE has access to a range of industry and specialist models for catastrophe pricing, including bushfire. QBE continues to explore and access evolving external data sources and granular hazard information to use in our risk assessment and pricing.

For bushfire risk, QBE accesses an external data source that considers bushfire risk at the individual property level. This external data source uses several risk factors to assess bushfire risk, for example, the proximity of vegetation to the property, the type of vegetation and the amount of clustering, the wind direction distribution and an assessment of the vegetation measures in respect of each wind direction, the degree of slope between vegetation and the property, and natural fire breaks (e.g. roads) or density (e.g. surrounding properties). The external data source relies on a range of data sources such as geocoded national address data, digital terrain data and vegetation data. Based on the bushfire risk for an individual property, that property will be assigned a bushfire zone reflective of the bushfire risk, and not the property's geographical region. This zone, based on the bushfire risk, is one of the factors considered in QBE's pricing.

As indicated at the Hearing, a property's Bushfire Attack Level (BAL) is not readily available. As QBE does not currently have access to BAL data, we do not at this stage include specific loadings in premium pricing to take account of an individual property's BAL.

A BAL is particularly relevant for consumers in their consideration of an appropriate sum insured amount. If a property is in a bushfire attack zone, there will be additional bushfire protection measures that would need to be implemented should the property need to be rebuilt. These requirements, and costs, will vary depending on the BAL. We do ask customers to make allowances for their rebuild costs if their home is in a bushfire attack zone – as per our Building Sum Insured calculator landing page available at <https://www.qbe.com/au/home-insurance/calculators>.