



25 September 2019

Senate Finance and Public Administration Committees
PO Box 6100
Parliament House
Canberra ACT 2600

fpa.sen@aph.gov.au

Insurance Australia Group (**IAG**)¹ welcomes the opportunity to make a submission to the *Emergency Response Fund Bill 2019 and Emergency Response Fund (Consequential Amendments) Bill 2019*.

With more than 8.5 million customers and information on the majority of motor vehicles and domestic residences in our markets, we use our leadership position to understand and provide world-leading customer experiences, making communities safer and more resilient for the future.

Our purpose is to make your world a safer place. We recognise that our role extends beyond transferring risk and paying claims. Our purpose drives our business to work collaboratively with the community to understand, reduce and avoid risk, and to build resilience and preparedness. This results in better outcomes for the community and means fewer claims and lower costs for our business.

We work collaboratively with government, industry bodies and Australian and international organisations on a range of topics and issues that relate to our customers, our people and the community. These include climate change, disaster response and resilience, and diversity, inclusion and belonging. IAG's in-house natural perils team enables us to consider climate risk and extreme weather events which are core to our business.

While IAG supports disaster recovery efforts and does not underestimate the positive impacts of recovery funding in helping our communities to rebuild after a natural disaster, a more balanced approach to spending on disaster mitigation and resilience measures and recovery and reconstruction is required.

¹ IAG is the parent company of a general insurance group with controlled operations in Australia and New Zealand. Our businesses underwrite over \$11 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (in Australia); and NZI, State, AMI and Lumley Insurance (in New Zealand).

This is a view shared by the Productivity Commission which recommended “an overhaul of the natural disaster funding arrangements in the form of a coherent policy package across recovery and mitigation funding, budget treatment of recovery costs, and accountability requirements for state and local governments.”²

IAG has continually expressed the view that prevention is better than cure. This is supported by the Final Report of the Northern Australia Insurance Premiums Taskforce which found that “[m]itigation to reduce the risk of damage from cyclones is the only way to reduce premiums on a sustainable basis.”³ Most importantly, the Australian Government accepted this finding.⁴

Unfortunately, successive governments have underinvested in mitigation, instead favouring recovery efforts. As noted in The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned Paper,⁵ our nation has invested an estimated \$50 million each year in mitigation measures to improve our communities’ resilience to natural disasters. In contrast, \$560 million has been the average annual spend on recovery measures. That means, for every \$10 spent on post-disaster recovery, only \$1 is spent on measures to improve the safety of our communities prior to disasters.⁶

The Productivity Commission provided some insights into why Governments underinvest in mitigation when it said “government action is not always in the best interests of the community (government failure). Research shows that natural disaster policy is beset by political opportunism and short-sightedness (myopia), which biases how funding is allocated to natural disaster risk management. Politicians can be quick to provide generous post-disaster assistance, which provides immediate, observable and private benefits to individuals and has strong political salience. By contrast, the political incentives for mitigation are weak, since mitigation provides public benefits that accrue over a long time horizon. Over time, this bias creates entitlement dependency and undermines individual responsibility for natural disaster risk management.”⁷

Given the Government’s acceptance⁸ of the finding in the Taskforce Final Report (i.e. mitigation is the only way to reduce premiums on a sustainable basis), we urge the Australian Government to commit to increasing mitigation funding. In this regard the Government’s \$100b infrastructure fund could be used to fund appropriate mitigation projects.

Committing additional mitigation funding makes economic sense. The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned Paper found that a simple cost-benefit analysis demonstrates how government funds would be saved over the longer term by placing a greater level of investment in pre-disaster resilience measures. It found that a mitigation program of expenditure would incur costs in the order of \$5.3 billion over the period to 2050 (present value terms) but would generate budget savings in the order of \$12.2 billion for all levels of government (or \$9.8 billion when looking at the Australian Government budget only). If successfully

² Productivity Commission [Inquiry Report](#).

³ [Taskforce Final Report](#), page xiii.

⁴ Government’s [response](#) to the [Taskforce](#) and General Insurance Senate Inquiry.

⁵ Deloitte Access Economics research Paper, ‘Building our nation’s resilience to natural disasters’, 2013, commissioned by The Australian Business Roundtable for Disaster Resilience & Safer Communities (**The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned Paper**).

⁶ The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned [Paper](#), page 8.

⁷ Natural Disaster Funding Arrangements, Productivity Commission [Inquiry Report](#), [Volume 1](#), No. 74, 17 December 2014 (**Productivity Commission Inquiry Report**).

⁸ Government’s [response](#) to the [Taskforce](#) and General Insurance Senate Inquiry.

implemented, it could see Australian and State Government expenditure on natural disaster response fall by more than 50% by 2050.⁹

For this reason, IAG supports the Productivity Commission's recommendation (Recommendation 3.5) for the Government to increase its funding to the State and Territory Governments for mitigation to \$200 million per year.¹⁰

IAG urges governments at all levels to increase funding for mitigation works to make communities safer and more resilient for the long-term. The primary role of governments in this area is to reduce community vulnerability to extreme weather events with a policy framework that promotes fit for purpose building codes, land use planning and preventative infrastructure investment, such as levees, consider both life and financial impacts and future climate change.

A program of mitigation activity should be developed based on cost-benefit analysis that demonstrates a clear positive outcome from investing in pre-disaster resilience measures, including a program of community education activities. Prioritisation of these activities should be informed by analysis of research, information and data sets allowing key investment decisions to be taken at all levels, including government incentives and price signals from the private sector.

If you have any questions or require any further information please do not hesitate to contact David Wellfare, Executive Manager, Public Policy & Industry Affairs

Yours sincerely

Jane Anderson
Executive General Manager, Corporate Affairs

⁹ The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned [Paper](#), page 21.

¹⁰ Productivity Commission [Inquiry Report](#), page 39.