



Australian Government
Department of Finance



Department of Finance

Submission to the
Select Committee on the Impact of Climate Risk on
Insurance Premiums and Availability

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Introduction

The Department of Finance (Finance) welcomes the opportunity to provide a submission to the Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability (the Committee).

Finance is providing this submission to the Committee as the policy steward of the Commonwealth Risk Management Policy and as the administrator of Comcover, the government's self-managed insurance fund.

This submission addresses Comcover's experience in relation to underlying causes and impacts on Comcover's insurance premiums and the extent climate risk is being priced into Comcover's insurance premiums.

Impacts on insurance premiums

As with the broader Australian insurance sector, Comcover, the government's self-insurance fund, has sustained significant, unforeseen increases in both the volume, frequency and costs of claims, associated with the impact of climate events. This has been compounded by other pressures, such as supply chain deficits. This has impacted Comcover's financial sustainability, particularly over the last five years, where we have experienced 14 separate climate related incidents, with several of these being one in a hundred-year type events within a short period, resulting in forecasted claim losses of \$185.7 million¹.

Our experience relates to the locations of the Commonwealth's assets that we insure for our Fund Members². Based on our claims experience and previous modelling³ undertaken on current natural peril risks, cyclone and earthquakes are the key perils of concern for low frequency and high severity events. High frequency, low severity losses are likely to arise from flood, severe thunderstorm and bushfire events. Flood related incidents account towards two thirds of Comcover's annual average losses associated to climate events, followed by cyclone 16%, severe thunderstorms, bushfire and earthquake account for 9%, 5% and 3% respectively.

The majority of high flood risk exposure for Comcover's Fund Members is in south and central Sydney, Northern Territory and Darwin, with approximately 8% of our locations considered high risk. Larger Commonwealth agencies in particular have a larger proportion of insured locations prone to flood risk with the potential of incurring significant losses. The ACT holds the largest accumulation of insured assets, with exposures subject to severe thunderstorm, earthquake and bushfire events.

Climate risk being priced into insurance premiums

The aggregate Comcover premium pool for 2024-25 has increased by 30 per cent from 2023-24 to meet expected claim expenses. Noting that much of the unforeseen increases in Comcover claims have been beyond the control of our Fund Members, the Government has

¹ Based on estimated claims reserves as at 28 June 2024 – due to longtail nature of certain claims, final costs are unable to be quantified until the claim has been finalised.

² Fund Members are all entities classified as General Government sector

³ 2022 Data Results – Insurable Risk Mapping & Modelling Services Comcover 15th September 2022

relieved this pressure by providing ongoing additional appropriation as part of the 2024-25 Budget.

Previous modelling of the impact of climate perils on Comcover's Fund Members, indicated that our annual average loss may continue to increase by a further 32 per cent by 2050 and 46 per cent by 2090.

Finance has been and will continue to consider the process Comcover would need to go through with its Fund Members to address the impact of climate risk. For 2024-25, Finance has amended its methodology for calculating Comcover premiums to enhance the focus of individual risk profiles of Fund Members and ensure an equitable approach amongst them. The most significant change is the approach in allocating premiums for very large claims (greater than \$10 million) to targeted Fund Members to reflect their risk. Finance also proposes to undertake a targeted insurable risk profiling program to identify insurable risk exposures and improve the effectiveness of controls and mitigation strategies.

Consideration of climate risk in decision-making

The Australian Government is working to build climate risk considerations into its business-as-usual practices, to ensure the policies, programs, assets and services are responsive to the changing climate. Through the Commonwealth Climate Disclosure reform, led by Finance, Commonwealth entities and Commonwealth companies will be required to publicly report, in their annual reports, on their exposure to climate risks and opportunities and their actions to manage them. This is complemented by the Commonwealth Climate Risk and Opportunity Management Program, led by the Department of Climate Change, Energy, the Environment and Water, which provides an approach to climate risk assessment for use by Commonwealth entities and associated capability building activities.