GRAIN PRODUCERS SA
The voice of South Australian growers

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Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability
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CANBERRA ACT 2600

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Submission re: Impact of Climate Risk on Insurance Premiums and Availability

I write regarding the Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability and request for submissions.

Grain Producers SA (GPSA) is the peak industry body representing the 4,500 grain farming businesses in South Australia. Our grain producers and their communities manage the majority of South Australia's cultivatable land and plant more than 4 million hectares of cereals, pulses, and oilseeds annually. The Department of Agriculture, Fisheries and Forestry (DAFF) notes Australia uses only 4.4% of its land for dryland cropping. In South Australia, it is from natural assets that crops are produced for an average of 7.9 million tonnes of grain each year, which contributes more than $4 billion to the States's gross food revenue. Grain production output has a strong export focus, with bulk shipments accounting for almost 80 per cent of SA's grain production.

The changing climate can lead to a loss of agricultural production and output, impacting rural household livelihoods and prompting failure of local businesses and their communities in regional areas. Grain producer self-reliance and adoption of evolving risk management practices is not an option, and neither should appropriate insurance to support agricultural production and output be limited by climate risk.

GPSA comments about the Terms of Reference, as follows:

(a) the unaffordability of insurance in some regions due to climate-driven disasters

Extreme weather and rainfall (or lack thereof) are costly natural disasters for South Australia with average annual damage from flooding in the State estimated in 2016 to exceed $32 million[1] and likely to be much higher today. Traditional insurance products, for example multi-peril crop insurance (MPCI), are designed to directly protect against yield losses on an individual farm. New index-based products compare indirect proxies, such as rainfall at a local weather station, Bureau of Metrology yield measures for yield losses on a farm. Rather than necessarily making insurance unaffordable in some regions, the problem is managed by introducing excesses or placing a much higher excess for those grain producers assessed higher risk by the new measures.

[1] Burns, G., Adams, L., & Buckley, G. (2017). Independent review of the extreme weather event South Australia 28 September - 5 October 2016

Unaffordable or much higher insurance premiums are likely driven by higher risk, so reducing pressure on premiums requires reducing risks. How does a grain producer located in an area subjected to climate-driven disasters reduce risk? Reducing risks associated with climate-driven disasters requires long-term planning with government involvement and investment to influence and reduce complex peril and moral hazard when grain producers cannot employ the best management practices due to beyond their control climate variability. And that's the key point, many of these climate impacts and risks are completely out of the farmers' hands but yet they are unable to insure against them due to excessive premiums which makes the insurance unviable.

(b) the unavailability of insurance for some people due to climate-driven disasters

Bushfires have caused devastating losses to agriculture in South Australia (SA) and GPSA understands the aftermath of the bushfires and cost impact on insurance underwriters has been to make insurances unavailable for communities segregated from the mainland. Kangaroo Island is an example of a previous bushfire catastrophe whose residents may find out that their properties and businesses are underinsured or uninsured. The 'segregated from the mainland' proposition could further be expanded to rural and regional locations with only one way in or out. By example, the Pinery bushfire in the lower-Mid-North wheat belt of South Australia, about 70 kilometres north of Adelaide, spread quickly due to high winds and open wheat fields, moving with incredible speed not previously seen in a bushfire. Initially burning in a south easterly direction from Pinery, before a south westerly change in the afternoon meant the entire eastern flank of the fire became a new, with the fire front burning in an easterly direction towards the Barossa Valley. Two lives were lost, along with thousands of livestock, copious amounts of broadacre property burnt and about 91 homes destroyed, with many more damaged. The predictions are that significant fire and weather events like this will occur more frequently in the future due to the changing climate and yet, farmers are unable to prepare for this by protecting their business with insurance because previous disasters have seen premiums rise to levels that average farmers can't access.

GPSA believes it is an unjust tactic to make insurance unavailable by pricing farmers out of the market. Allowing grain producers to experience disadvantage with catastrophic losses due to unreachable insurance premiums is not a just or fair approach.

(c) the underlying causes and impacts of increases in insurance premiums

GPSA is not privy to how Insurers estimate increases in insurance premiums. However, grain producers believe there is a short-term view when insurers underwrite business interruption or contingent business interruption risks. This is especially noticeable when risk drivers interact with each other. If climate-driven disasters drivers accumulate, the losses incurred by insurers might increase considerably. An example would be an extraordinary rainfall event with subsequent flooding after a period of dry conditions, like that which occurred in South Australia's northwestern Eyre Peninsula in January 2022.

(d) the extent to which increased climate risk is being priced into insurance products not exposed to climate-driven risks

It is GPSA's understanding that the insurance industry has recently sustained significant losses from climate-driven events. The Insurance Council reported that the 2022/23 catastrophe season in Australia led to insured losses totalling $1.6 billion[2]. This suggests that insurers are likely to attempt to claw back losses in the short-term revenue from those who are insured. In fact, the Insurance Council 2022/23 report discusses pressures on insurance premiums and states that 'higher premiums are also being driven by the impact of extreme weather events in Australia and overseas, the growing cost of reinsurance, and scarcer capital making riskier activities more expensive to insure.'

(e) the distributional impact of increases in insurance premiums across communities, demographics and regions

GPSA has limited information and is unable to comment on the distribution impact of increases in insurance premiums.

(f) the role of governments to implement climate adaptation and resilience measures to reduce risks and the cost of insurance

GPSA recommends governments consider opportunities to support the insurance industry when it comes to farmers getting access to insurance. We understand that insurance companies are private businesses and need to be viable but also don't accept that premiums should be so high that farmers are unable to obtain affordable cover.

(g) how the pricing of risk from climate-driven disasters can be better redistributed across the economy

GPSA understands that the insurance premiums for products paid by customers are pooled, effectively distributing the risk across thousands of customers with similar risks. To enable the redistribution of risk across all customers by way of their insurance products to then be pooled is not a viable way to protect against the climate-driven risks.

(h) any other related matters

GPSA has concerns that climate change and the transition to a low-carbon economy presents new challenges. Changes in food consumption and land use measures to reduce greenhouse gas (GHG) emissions from agriculture, and what are the impacts on regional levels of agricultural production, land use, GHG emissions, and the grain supply chain may cause disparities to insurance risk and farm incomes.

GPSA believes the Select Committee should consider Artificial Intelligence (AI) and machine learning controls on insurance underwriting and risk assessment and influences on individual customer premiums. Michael Bruch, Global Head of Risk Consulting Advisory Services, Allianz Commercial has said; 'AI enables insurers to enhance their value proposition by better predicting and therefore preventing risks'[3]. However, climate change is predicted to affect regions differently and further climate variability is likely to inversely affect regions within regions. How will AI adjudicate unfamiliar variability that leads to climate-driven disasters?

[2] Insurance Catastrophe Resilience Report 2022–23, The Insurance Council of Australia (p.2)
[3] How AI could change insurance (2023) https://commercial.allianz.com/news-and-insights/expert-risk-articles/AI.html

Thank you for the opportunity to provide a submission to the Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability.

Yours sincerely,

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GRAIN PRODUCERS SA