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One Company Many Brands

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12 March 2014

Dr Bill Pender
Committee Secretary
Joint Select Committee on Northern Australia
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Dear Dr Pender

RE: Inquiry into the development of Northern Australia

Thank you for the opportunity to contribute to the Joint Select Committee's Inquiry into the development of Northern Australia.

The Suncorp Group

Suncorp Group Limited and its related bodies corporate and subsidiaries (collectively 'Suncorp') offer a range of financial products and services in banking, life insurance, superannuation and general insurance across both Australia and New Zealand. Suncorp employs over 15,000 Australians and has more than nine million customers across the country.

This submission is lodged on behalf of Suncorp's General Insurance business. Suncorp is the largest general insurance group in Australia and second largest in New Zealand. We offer a range of personal and commercial insurance products protecting the financial wellbeing of millions of Australians. Throughout the 2012-13 financial year, Suncorp paid out $5.8 billion in insurance claims, averaging more than $15 million each day.

Insurance in Northern Australia

The expansion of economic activity in Northern Australia may offer significant opportunities, but will also present challenges associated the tropical environment, in particular, the management of risks associated with cyclones. Suncorp encourages the Committee to consider the impact of natural disasters on the region and how resilience can be bolstered in Northern Australia to reduce the impact of these disasters on local communities.

In response to natural hazard risks in the region we believe it is necessary to increase the availability of risk information, support ongoing development of building standards specifically for tropical environments, improve urban planning and invest in preventative mitigation measures. This will ensure that the community has the ability to withstand the natural hazards associated with living and working in Northern Australia.

Impact of Natural Disasters

Over the past decade, declared catastrophes in Northern Australia have seen insurers and reinsurers pay out more than $3.36 billion in claims. Table 1 provides an overview of some of the most significant recent events, such as Cyclone Yasi which resulted in over $1.4 billion in claims and Ex-tropical Cyclone Oswald which produced over $900 million in insurance claims.

TABLE 1: Declared Insurance Catastrophes, Northern Events[1]

Event	Date	Location	State	Cost (AUD$000)
Ex-tropical Cyclone Oswald (excl. NSW)	21/01/13 to 31/01/13	QLD	QLD	977,000
Cyclone Yasi	02/02/11 to 07/02/11	QLD	QLD	1,412,239
Floods	13/01/2009	Far North Queensland	QLD	19,000
Flood Storm	14/02/2008	Mackay	QLD	410,000
Cyclone George & Jacob	8/03/2007	George & Jacob - Pilbara	WA	8,000
Cyclone Larry	20/03/2006	Innisfail	QLD	540,000
			Total Cost	**3,366,239**

These figures fail, however, to capture the full extent of the impact of natural disasters on Australian communities. Other important costs that must be considered include non-insured losses, interrupted economic growth and social impacts. For instance, following Cyclone Yasi and the 2011 Queensland floods, Queensland's gross state product was reduced by around $6 billion in 2010-11 with industries like agriculture, exports, mining and tourism being disrupted.[2] Disasters of this scale also have a longer term effect on the economy with high recovery costs generating higher insurance premiums and restricting discretionary spending.

Importance of Insurability

The history of disasters and current insurance affordability pressures in Northern Australia demonstrate how challenging it is to get natural hazard risk management right. Insurance is an important aspect of risk management as it provides a way to share financial risk and recover from disasters. For example, Suncorp's response to the Queensland Floods and Cyclone Yasi significantly boosted recovery with 3,700 full time jobs created and $1.2 billion of economic activity generated over 10 years.[3]

The availability and affordability of insurance is therefore fundamental to a resilient and prosperous economy, but it cannot fully manage all risks. A risk can only be insured against when the loss is unexpected, the premium is affordable and the likelihood of catastrophic losses is low. Reinsurance is also required to ensure natural disaster claims can be paid when they do occur.

When risks become too high, the affordability and availability of insurance reduces as these factors are no longer "insurable". Insurers may also struggle to obtain the requisite level of reinsurance cover. In these cases other risk management tools like disaster mitigation must be used to return risks to an insurable level.

An interesting aspect of insurance is that the very existence of cover can lead to higher risks, as the financial consequences for risky decisions are reduced. Insurers respond to this by linking premiums with the underlying

[1] Historical Disaster Statistics, Insurance Council of Australia, 2014, available: http://www.insurancecouncil.com.au/industry-statistics-data/disaster-statistics/historical-disaster-statistics (Accessed: 03/02/2014)
[2] *Road to Recovery*, Deloitte Access Economics, October 2011 pg. 7 available: http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTEyOTcyfENoaWxkSUQ9LTF8VHlwZT0z&t=1 (Accessed: 11/02/2014)
[3] Ibid. pg. i

level of risk. The use of risk-based premiums provides a financial incentive to manage risk, and ensures a balance is maintained between insurance and other risk management tools.

In cases where the availability or affordability of insurance is under pressure, this is best addressed by improving community resilience to lower overall levels of risk. This will improve insurability of risk in the community, increase the availability of reinsurance, drive competition in the market and result in lower premiums for residents.

Building resilience

In order to mitigate these economic and social impacts on the Australian community, it is critical that any further development in Northern Australia is supported by robust evidence about risks in tropical areas and a comprehensive mitigation program. COAG's *National Strategy for Disaster Resilience* correctly identifies that hazard risk management is a shared responsibility requiring action from all levels of government, business and the community.

We believe key considerations for this Inquiry should include delivery of transparent risk information, construction of stronger homes, smarter urban planning and investment in disaster mitigation.

Transparent risk information

Information around natural hazard risk is an important foundation stone in the development of resilient communities. Risk information supports homeowners to make better choices about the location and design of their homes, allows businesses to deliver better products to meet risks and enables government to make informed decisions.

Unfortunately, it is currently common for families and businesses to unsuspectingly establish themselves in areas exposed to high risk. This lack of risk awareness typically results in an under-prepared community that is disproportionally impacted by hazard events. On the other hand, communities appropriately informed about their risk can prepare for the hazards they face and minimise impacts.

To help improve risk awareness the insurance industry is currently developing a building risk rating tool that will help inform homeowners of risks relevant to their location and building design. In addition to this effort, we believe a centralised government source of risk information is required to help increase use of government developed risk information.

This will ensure Northern Australia grows with risk in mind and natural hazards are less likely to become natural disasters. It will also support insurance competition in Northern Australia as risk information improves the efficiency of insurance pools and increases the appetite for insurers and reinsurers to offer cover.

An example of a relevant risk information project exists in the Tweed Shire of New South Wales. The Insurance Council of Australia, through their National Flood Information Database, has liaised with the Tweed Shire Council to gain access to detailed flood risk information. Before this data was released, much of the Shire was believed to be a 1-in-100 flood risk. Following release of detailed flood risk information from the local government, approximately 7,900 homes had their flood risk rating downgraded.

At a Federal level, Geoscience Australia is currently developing a National Flood Risk Information Program to provide improved access to flood studies developed by all levels of government.[4] Suncorp believes this program should be expanded in partnership with the insurance industry to encompass a broader range of natural hazards such as storm, cyclone and bushfire.

In Northern Australia it is particularly relevant for cyclone and storm surge risks to be transparently communicated. The delivery of this information not only inform a wide range to stakeholders, but will also help to build valuable skills in geospatial information systems, hazard risk analysis and communication techniques.

[4] *National Flood Risk Information Program,* Geoscience Australia, 18/06/2013, available: http://www.ga.gov.au/hazards/flood/national-flood-risk-information-project/national-flood-risk-information-program.html (Accessed 29/10/2013)

Constructing stronger homes

Building design will also be crucial in developing a resilient community in Northern Australia. An illustrative example of the benefits of a regionally appropriate design can be seen in Innisfail, Queensland. In 2006, Cyclone Larry damaged a number of homes in Innisfail, which were repaired or rebuilt subject to the new stronger building code. In 2011, when Cyclone Yasi impacted Innisfail, homes in the rebuilt area had an average repair cost of $56,000. By comparison, in nearby Tully and Cardwell, where homes were largely built prior to the new cyclone building standards, the average repair cost per home was nearly double at $110,000**.**

There is a clear benefit to reducing the vulnerability buildings both in terms of regional economic resilience and insurability. Building resilience is particularly relevant to cyclone risk, the highest and most expensive natural hazard risk for Northern Australia. It is important that new buildings are constructed to the best possible standards and that a plan is in place to bring existing buildings up to these standards through retrofit programs.

Key to establishing appropriate building standards will be a robust program of research. Northern Australia already has strength in this area in the form of the James Cook University Cyclone Testing Station which develops leading research into cyclone resilience, such as the recently announced strata inspection program.[5] Expansion of research centres like the cyclone testing station should also be considered as part of the development of Northern Australia.

Research into building standards for tropical regions could also support increased standardisation of building code requirements across jurisdictions. Currently building code requirements can vary from location to location resulting in differing levels of resilience to natural hazards. A broadly implemented resilient building code would help to improve risk management nationally and may also improve insurability due to increased comparability of building data.

Smarter urban planning

Accounting for risk in the planning process is also crucial for ensuring that new developments are exposed to acceptable levels of personal and financial risk. Suncorp believes that urban planning must take into account risk information and believes projects that expand the availability of risk data, such as those outlined above, will be crucial to supporting the work of local planning authorities.

Investment in disaster mitigation

Existing communities do not benefit from transparent risk information, stronger building standards or smarter urban planning to the same degree as new communities. Legacy decisions have often resulted in inappropriate development that leaves communities exposed to high natural hazard risks. This causes a high level of vulnerability to hazards, which in turn leads to higher insurance premiums.

To overcome these legacy issues it is important that the Commonwealth Government supports investment in disaster mitigation. Responsibility for disaster mitigation is currently devolved to local governments that often lack the funds and expertise needed to fulfil that responsibility. As the Commonwealth currently provides substantial relief and recovery funding after natural disasters, we believe an increased level of investment in preventative measures like disaster mitigation is a more economic means of building resilience.

The huge benefits of disaster mitigation have been experienced in Charleville, Queensland where a flood mitigation program was recently completed. This project has significantly reduced disaster risks with an average home and contents premium for a new policy now around $990. Without flood mitigation this average home insurance premium would be over $3000.

This risk reduction has had a number of positive effects for the community. The first and most obvious is that cost of living pressure has been relieved for homeowners with more affordable insurance bills. It also means that during the next flood businesses will be able to stay open, homes will remain dry and there will be a reduced need for Government to fund disaster relief and recovery.

[5] See: *James Cook University to design engineering inspection scheme for strata-title properties*, Insurance Council of Australia, 19/02/2014, available: http://www.insurancecouncil.com.au/media_release/plain/244

Conclusion

Suncorp supports development in Northern Australia, provided natural hazard risks are appropriately managed. Ensuring we manage risk through the delivery of transparent risk information, stronger buildings, smarter planning and investment in disaster mitigation is crucial to a sustainable economy for Northern Australia.

Suncorp's *Risky Business* paper is also enclosed as Appendix A. This paper was written following the Queensland floods and Cyclone Yasi and it provides more information about the relationship between insurance and natural disaster risk management.

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Yours sincerely

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Executive Manager, Public Policy