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NIBA 2023-24 Pre-Budget submission

Introduction

The National Insurance Brokers Association (NIBA) welcomes the opportunity to provide this submission ahead of the 2023-24 budget. Record losses arising from more frequent and severe weather events and increased risk of property damage have seen insurance premiums rise in many parts of the country.

The increasing frequency and severity of natural disasters in recent years has highlighted the urgent need for effective mitigation measures to protect communities and property from the impacts of these events. While Governments play a crucial role in disaster response and recovery, it is equally important to invest in proactive measures to reduce the risks and associated costs of these events.

In the five years from April 2017 to April 2022, average quotes for combined home and contents insurance premiums around Australia rose by over 72% with premiums in some areas rising by more than 100%. The Cyclone Reinsurance Pool, which was introduced last year to combat rising premiums in Northern Australia, may yet have a positive impact on premiums in the region, however, for those facing rising insurance costs in other parts of the country there is little relief.

About NIBA

NIBA is the peak representative body for the intermediated general insurance industry. NIBA represents approximately 450 member firms and 15,000 individual brokers including large, multinational insurance brokers, Australian broker networks, and small to medium-sized businesses located in cities and regional areas right around Australia.

NIBA aims to promote the role of insurance brokers and the role they play in supporting and advising their clients on risk and insurance matters. NIBA provides this knowledge and expertise to governments and government agencies to promote understanding of the operation of general insurance markets.

Insurance brokers represent the interests of the purchasers of insurance, the policyholders, and not those of insurance companies. Consequently, comments made by NIBA are made on behalf of its members and the public that purchases general insurance, not on behalf of insurers.

Increased incentives for Natural Disaster Mitigation

Mitigation of natural disaster risk is an important part of long-term risk reduction. While NIBA supports the introduction of the Disaster Ready Fund (DRF), to help communities prepare for natural disasters, public mitigation works, such as those proposed to be funded by the DRF are only one part of the puzzle.

For many communities, public mitigation works will have little impact on improving resilience to natural disasters, for example, communities that are regularly impacted by tropical cyclones. In these cases, household-level mitigation works, otherwise known as private mitigation are an effective alternative.

The increasing frequency and severity of natural disasters has highlighted the need for individuals and communities to take proactive measures to protect themselves and their properties from damage. However, the cost of these mitigation works can be prohibitively high for many homeowners and small businesses, leaving them vulnerable to the impacts of severe weather events.

While increasing building standards to meet the demands of Australia's harsh weather is an effective way to mitigate damage from natural disasters, this leaves a significant gap as existing structures fall further behind. Most bushfire-prone areas exist outside the capital cities and major population centres. These areas experience much lower turnover rates of housing stock and as such, the buildings in these areas are less likely to comply with current disaster-specific building codes. According to the Bushfire Building Council of Australia over 90 percent of building stock in bushfire-prone regions is not built to current bushfire standards. Furthermore, a survey of buildings damaged during the 2009 Black Saturday bushfires found that less than 6 percent complied with bushfire building standards at the time.

In order to bridge the gap between new and existing infrastructure the existing DRF should be expanded to provide grants for homeowners in disaster-prone areas to undertake private mitigation works. Examples of measures that could be funded by the scheme include;

Bushfire

- Establishing suitable water supply arrangements for firefighting purposes where there is no access to a reticulated water source;
- Installing fire-proof window shutters;
- Replacing windows with safety glass;
- Replacing roof materials with non-combustible alternatives;
- Installing a sprinkler system for fire defence purposes;
- Replace decking and external doors with non-combustible material;
- Enclosing timber subfloors
- Installing sarking behind weatherboards or other external cladding;
- Cover external walls with non-combustible or bushfire-resistant materials; or
- Clearing land of vegetation to create an Asset Protection Zone.

Flood

- Installing solid fences;

- raising windows above flood levels;
- sealing doors with 'stop boards';
- installing reflux and backflow valves to limit sewage contamination;
- replacing existing materials with waterproof alternatives; or
- elevating buildings above flood levels.

Cyclone

- installing opening protection, such as roller door bracing and roller shutters;
- installing roof strapping (i.e. tying down roof battens to trusses and rafters);
- installing an over-batten system (i.e. steel plates fitted over the roofing material and held down to the foundations outside the main walls by tie rods and turnbuckles); or
- replacing the existing roof with materials that meet current building standards.

Such a program would have a number of positive outcomes including; reducing the risks and costs associated with natural disasters, providing a significant boost to the economy by creating jobs and stimulating investment in the construction and engineering sectors, promoting community resilience and self-sufficiency, as property owners and businesses take a more active role in protecting themselves and their assets from the impacts of natural disasters, and reducing the overall financial burden on insurers which is passed on to policyholders in the form of higher premiums

Similar programs have been administered both domestically by relevant state governments and internationally. Most notably the 'My Safe Florida Home' program which operated from 2007 to 2009 offered homeowners in Florida a free assessment of their property for structural vulnerabilities and allowed them to apply for a grant to retrofit their homes.

The program targeted lower-socio-economic owners of older homes in high-risk areas, thus providing an equitable approach to strengthening homes for those who would otherwise have been unable to afford it. Homeowners who participated in the assessment also received a report that outlined appropriate structural improvements, the cost, and the associated insurance discount if improvements were completed. A 2009 evaluation of the program estimated that 'My Safe Florida Home' 'reduced the 100-year probable maximum loss by at least US\$1.50 per dollar invested in grants'.

The positive effects of Mitigation on Insurance Premiums

Insurance premiums are largely a reflection of risk. Previous mitigation programs have demonstrated that mitigation can have a positive impact on insurance premiums. In Northern Queensland, homeowners who participated in the Household Resilience Program which provided grants to homeowners for the purposes of undertaking cyclone resilience works on their property saved more than \$300 on their insurance premiums.

The ACCC Northern Australia Insurance Inquiry, second interim report found that a leading contributor to a property owners' decision to underinsure or not insure their property was affordability. While NIBA believes that the most efficient way to increase insurance affordability is through the abolition of inefficient taxes and levies, where premiums are high due to higher risks posed by natural disasters, mitigation programs can be effective in

reducing these risks and consequently lowering premiums. Improving affordability removes barriers to insurance and enables more homeowners to appropriately manage their risks.

Importantly, the general insurance industry must play a key role in ensuring that mitigation works carried out by homeowners are recognised by insurers when determining premiums. NIBA notes that currently a number of insurers in Northern Australia explicitly offer premium discounts to properties where work has been undertaken to improve the property's cyclone resilience however this is not extended to other types of risk such as flood or bushfire. It is important that the general insurance industry is engaged to ensure that the types of measures funded by the DRF will have a positive impact on premiums.

Private mitigation has a net positive impact on surrounding areas, preventing fires from spreading from home to home or in the case of a tropical cyclone reducing the amount of debris that in turn damages further properties. It is important that mitigation works carried out on neighbouring properties are, where appropriate, taken into consideration when determining premiums.

Since 2005, approximately \$24 billion has been spent on disaster relief. In comparison, only \$510 million – or around two percent of all expenditure has been allocated to improving the resilience of properties and communities. Over the last decade, this percentage has declined in comparison to the expenditure on recovery. This is despite research showing that \$1 spent on disaster mitigation saves society \$6 in future disaster costs.

As more and more Australians face the prospect of their homes becoming uninsurable it is critical that a solution is found. Significant steps have already been taken with the introduction of the DRF however more can and must be done to ensure our communities and homes are resilient in the face of natural disasters.

Should you have any queries or wish to discuss any aspect of this submission please don't hesitate to contact me or my office.

Yours sincerely,



Philip Kewin

Chief Executive Officer
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