



**IAG SUBMISSION TO AUSTRALIAN COMPETITION AND
CONSUMER COMMISSION NORTHERN AUSTRALIA INSURANCE
INQUIRY – ISSUES PAPER**

21 DECEMBER 2017



EXECUTIVE SUMMARY

IAG believes that there is robust competition in the Australian general insurance industry, demonstrated by the number of insurers, the products and services they offer and digital innovation across the insurance value chain.

IAG recognises that the pace with which insurance premiums have risen in recent years in Northern Australia has caused concern for some consumers. Much of the work IAG is undertaking aims to address and balance the broader objectives of insurance affordability, disclosure, transparency, accessibility and participation.

We note the ACCC's focus is on a range of issues and concerns in Northern Australia. We believe that these concerns must be considered in the appropriate context and consider broader economic forces and pressures, including the underlying risk cost, the increasing claims cost and the prevalence of natural perils in Northern Australia.

It is important to recognise that risk is the key driver of the price of insurance, and IAG believes that solutions focusing on risk mitigation and access to information will keep significant pressure on pricing and continue to cause rapid innovation to the betterment of the consumer.



INTRODUCTION

IAG welcomes the opportunity to make a submission to the Australian Competition and Consumer Commission's (ACCC) Northern Australia Insurance Inquiry – Issues Paper.

IAG's submission addresses a number of the issues raised in the Issues Paper. IAG endorses the content and sentiment of the submission from the Insurance Council of Australia.

IAG

Our purpose is to make your world a safer place, which means we are working to create a safer, stronger and more confident tomorrow for our customers, partners, communities, shareholders and our people throughout Asia Pacific.

IAG is the parent company of a general insurance group, with operations in Australia, New Zealand, Thailand, Vietnam and Indonesia. Our businesses sell insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI in Australia; NZI, State, AMI and Lumley Insurance in New Zealand; Safety and NZI in Thailand; AAA Assurance in Vietnam; and Asuransi Parolamas in Indonesia. IAG also has interests in general insurance joint ventures in Malaysia and India.

IAG has built a formidable reputation on understanding the unique needs of Australians and being a steadfast supporter of the community. We take pride in helping consumers understand insurance so they can make confident choices to protect the things they value.

THE GENERAL INSURANCE INDUSTRY

The role of general insurance

General insurance does more than help protect the assets and financial wellbeing of individuals. It provides significant benefits to individuals, the government, economy and community. When consumers purchase insurance, they transfer certain risks to an insurer. Insurers identify and manage the costs of those risks to ensure there are sufficient funds to meet the cost of future claims as they arise. To do this, an insurance company must put a price on the likelihood of someone making a claim, and the cost of that claim. Therefore, the most significant contributions of insurance to society are the provision of risk sharing, risk transfer abilities and as a loss prevention mechanism.

Helping individuals protect what's important

The availability of home, strata and car insurance allows individuals to protect their most valuable assets and avoid the financial burden of repairing or replacing assets damaged as the result of an insurable event. For example, in the event of a natural disaster, many uninsured individuals would not have the savings necessary to rebuild their home while simultaneously paying off the mortgage on the original home.

Benefits to Government

In the absence of insurance, governments would have a fiscal responsibility to rebuild and restore communities should misfortune or disaster occur. The private insurance market remains the most effective and economically sustainable solution to ensuring the maximum number of Australians choose to cover themselves for risk.



Benefits to the economy

Insurance facilitates trade and commerce while supporting business and economic growth, as individuals who would otherwise require precautionary savings are able to spend those funds elsewhere. The Australian general insurance industry is well-placed to protect customers with home, strata and car policies. According to the Australian Prudential Regulation Authority (APRA) the industry is well capitalised and highly competitive. This is against the backdrop of a low interest rate environment with unprecedented numbers of natural disasters in recent years.

Benefits to the community

Insurance plays a key role in identifying, assessing and communicating risk. The price of insurance premiums provides an important signal that can help individuals and communities understand their exposure to a range of risks and provide an incentive to implement preventative and protective measures to reduce vulnerability. IAG is a founding member of the Australian Business Roundtable for Disaster Resilience & Safer Communities and shares the Roundtable's objective for a sustainable, coordinated national approach to making communities more resilient and people safer. Investment in disaster resilience and preventative activities is the most effective way to protect communities and reduce the impact of disasters.

The role played by IAG

As an organisation, IAG has a long history of working proactively to support the communities in which we operate. This role extends beyond providing insurance cover and paying claims, to raising awareness of insurance and risk, and helping communities prevent avoidable damage and mitigate loss. IAG has embedded a shared value strategy within our business by undertaking programs and projects that focus on building social and economic resilience. These include:

- **Involvement in UNEP Principles of Sustainable Insurance** - Internationally we are represented on the Global Steering committee for the UNEP FI as well as on the Principles for Sustainable Insurance (PSI) Board and in this role support UNEP FI activities as well as promoting and sharing our knowledge on climate risk through research collaborations.
- **Global Resilience Project** - Through our PSI commitments, we have led a Global Resilience Project that focuses on building community disaster resilience through data and partnerships. This project released the report 'Building Disaster Resilient Communities and Economies' in 2015 and in partnership with NICTA, Australia's Information Communications Technology Research Centre of Excellence, developed the Global Risk Map a comprehensive digital, open-source risk map of natural hazards. The next phase of this project focuses on effective approaches to support cost effective investments in pre-disaster resilience and creating opportunities for more affordable, accessible and scalable insurance solutions.
- **Australian Business Roundtable and Resilient cities** - IAG has continued our work to pursue national efforts to make communities safer and more resilient to extreme weather events through:
 - Resilient New Zealand – IAG and a group of likeminded businesses formed this initiative to identify, champion and advocate ways to help NZ become more resilient to natural disasters.
 - Active involvement in the 100 Resilient Cities initiative, serving on Steering Committees and Working Groups in Christchurch, Wellington, Melbourne and Sydney.
 - The Australian Business Roundtable for Disaster Resilience and Safer Communities. IAG partners with major businesses and community organisations to work collaboratively with national and state governments to affect change in public policy and increase investment in safer and more resilient infrastructure and communities, and by improving the capacity of people and businesses to better withstand future natural disasters.
- **Collaboration with Red Cross** - In 2016 we signed a ten-year collaborative partnership agreement with the Australian Red Cross, focusing on helping communities to build their resilience. Research from our first joint initiative, which focused on how people think, feel and act in emergencies, is allowing us to co-design a digital emergency preparedness tool that will help people stay safe.



- **Confident communities** - Through our Confident Communities program, we are aiming to drive a national movement to build community resilience and ultimately create 'a nation ready for anything'. Alongside this national movement we are working at the local level with the communities of Blacktown in New South Wales, and the Murrindindi Shire in Victoria, to create sustainable social change at a grass-roots community level.
- **SES Partnership** - Our partnership with the NSW and QLD State Emergency Services helps communities reduce risks arising from natural disasters. Approximately 90% of people who saw our joint storm preparedness campaign reported taking preventative action, paving the way for a reduction in claims costs and business revenue growth.
- **DipStik** - We've also partnered with local councils across New South Wales to begin piloting DipStik, an early flood warning system that relies on flood monitoring devices on roads across rural areas.
- **Cyclone Testing Station** - As part of a project with Suncorp and James Cook University (JCU) Cyclone Testing Station IAG are helping to study the impact of tropical cyclones on strata properties in North Queensland by sharing our claims data, expertise and funding. The goal of the project is to understand the drivers of cyclone impacts and losses. We hope this work can support continuous improvement in building sector, and in the research sector that analyses damage pathways from perils.
- **At what cost report** - In 2016, IAG launched a national report and mapping tool, *At What Cost? Mapping where natural perils impact economic growth and communities* to promote better understanding of the full costs and risks associated with natural perils in Australia.
- **Explaining the value of insurance** - Our commitment to helping customers and the broader community understand the value of insurance led to the launch of the Safer Homes website in 2015. This website helps individuals to learn about their homes, insurance, risks and surrounding communities and to assess whether they have adequate protection. This initiative is seeking to educate by building an individual's awareness of the real value of their home and contents and the most common risks in their neighbourhood. Lack of knowledge in these areas can lead to underinsurance and increased vulnerability. Since the website launched we have had more than 200,000 visitors to the site. <https://saferhomes.nrma.com.au>

NATURAL PERIL RISKS IN NORTHERN AUSTRALIA

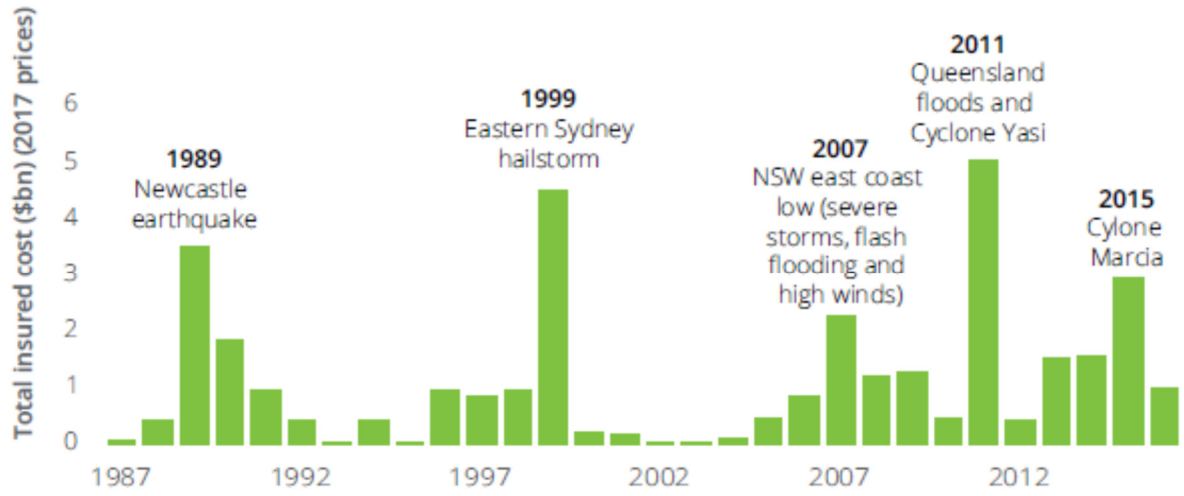
The Australian Business Roundtable for Disaster Resilience & Safer Communities (November 2017) report – *Building resilience to natural disasters in our states and territories* - highlighted the intensity and frequency of natural disasters varies substantially year to year, as does their distribution and impact. Some of the most destructive disasters have occurred in recent years in Northern Australia. These are:

- **2011:** The Queensland floods and Tropical Cyclone Yasi contributed to Australia's most costly year for natural disasters, and, at \$5.1 billion, more than 60% of the insured cost of natural disasters that year. The floods led to 36 deaths and property damage costs of \$1.5 billion (Queensland Floods Commission of Inquiry, 2012). Cyclone Yasi claimed one life and also incurred property damage costs of \$1.5 billion.
- **2013:** Tropical Cyclone Oswald cost \$1.5 billion in insured costs.
- **2015:** Tropical Cyclone Marcia and a cluster of east coast lows (extra-tropical cyclones) cost \$2.9 billion in insured costs.
- **2017:** Cyclone Debbie in Queensland and New South Wales (NSW) cost an estimated \$1.5 billion in insured losses, with this total expected to rise further.

The Roundtable report highlights that Northern Australia is more susceptible to cyclones and floods. Queensland has been Australia's most disaster-prone state over the past decade and incurred an average total economic cost of \$11 billion per year. This is 60% of the national cost. NSW and Victoria each incurred more than 15% of the total cost. The remaining 10%, equivalent to \$1.4 billion per year, was borne across other States and Territories. Details of insured costs of natural disasters in Australia over the 1987-2016 period and the total economic cost by State are detailed below.



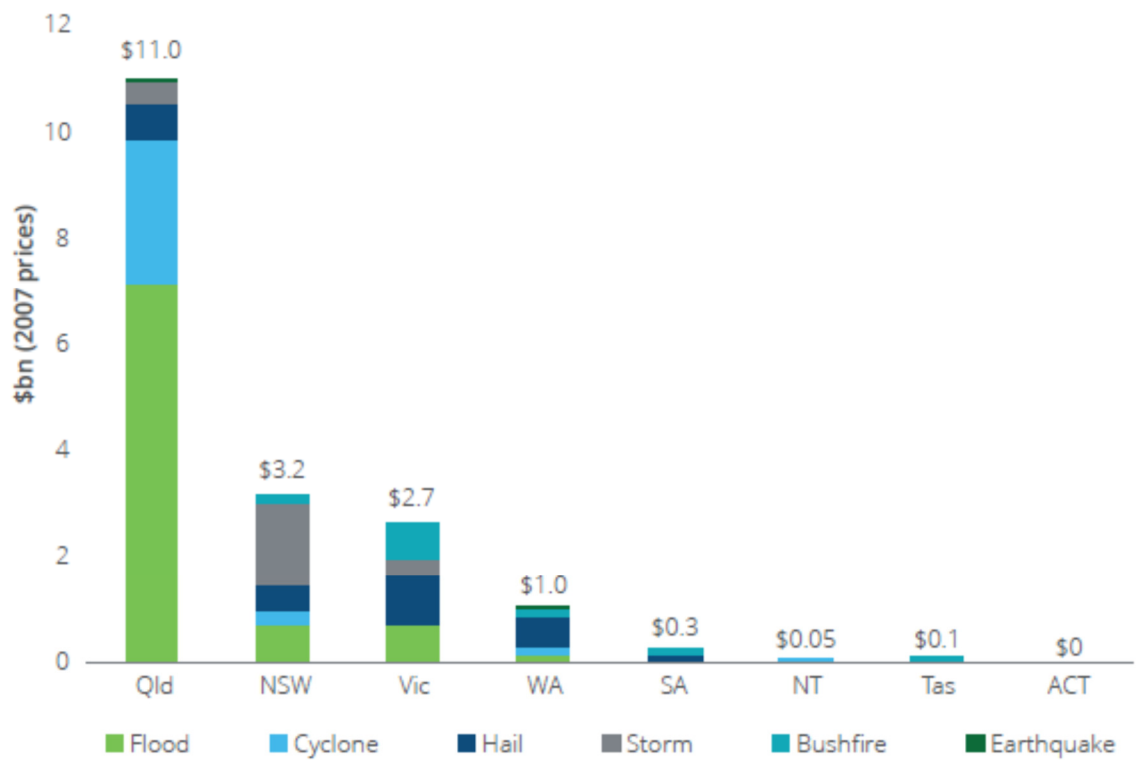
Insured costs of natural disasters Australia 1987-2016 (2017 prices)



Source: ICA (2017)

Source: ABR (2017)

Total economic cost of natural disasters, by State, average 2007-2016 (\$bn)



Source: Deloitte Access Economics estimates (2017)

Source: ABR (2017)

IGAG commissioned research by SGS Economics & Planning (November 2016) - *At What cost? Mapping where natural perils impact on economic growth and communities* – provides details of natural perils risk levels for all Local Government Areas (LGAs) across Australia.



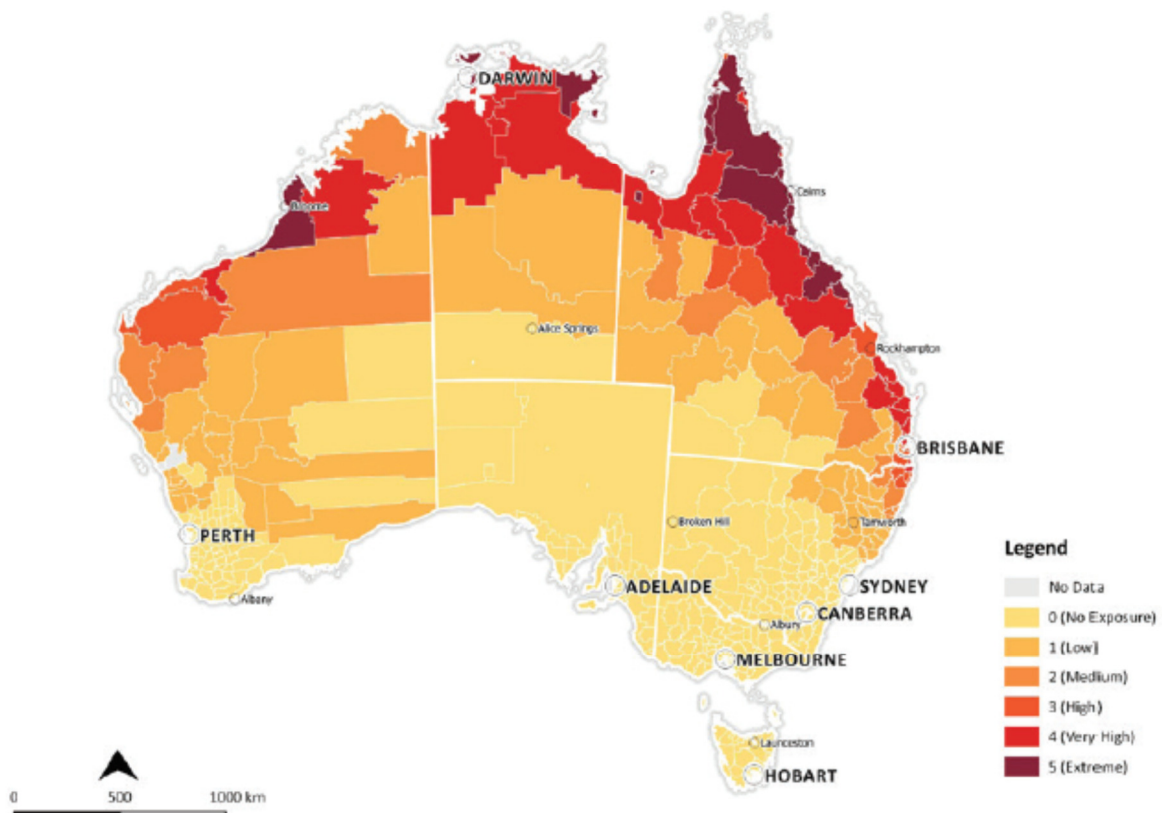
Details of the risk of various perils – tropical cyclone, flood, storm and bushfire are detailed below. A rating of zero is the lowest risk and a rating of five is the highest. Detailed interactive maps of natural perils risks by LGAs across Northern Australia are available at: <http://www.sgsep.com.au/maps/2016/IAG/#>

The SGS report highlighted the tropical regions in the north of Australia are most at risk, with areas rated as having very high or extreme risk concentrated in Queensland, the Northern Territory and north-west Western Australia. Several major tropical cyclones have devastated Northern Australia. Tropical Cyclone Tracy hit Darwin in 1974, killing 65 people and destroying most of Darwin. In North Queensland, Tropical Cyclone Yasi in 2011. The Mackay tropical cyclone of 1918 saw 1,411 millimetres of rain fall in Mackay in three days, and caused the death of 30 people (SGS, November 2016).

Tropical Cyclone Risk



Risk Score by LGA



Source: SGS (2016) based on ICA iLEAD data

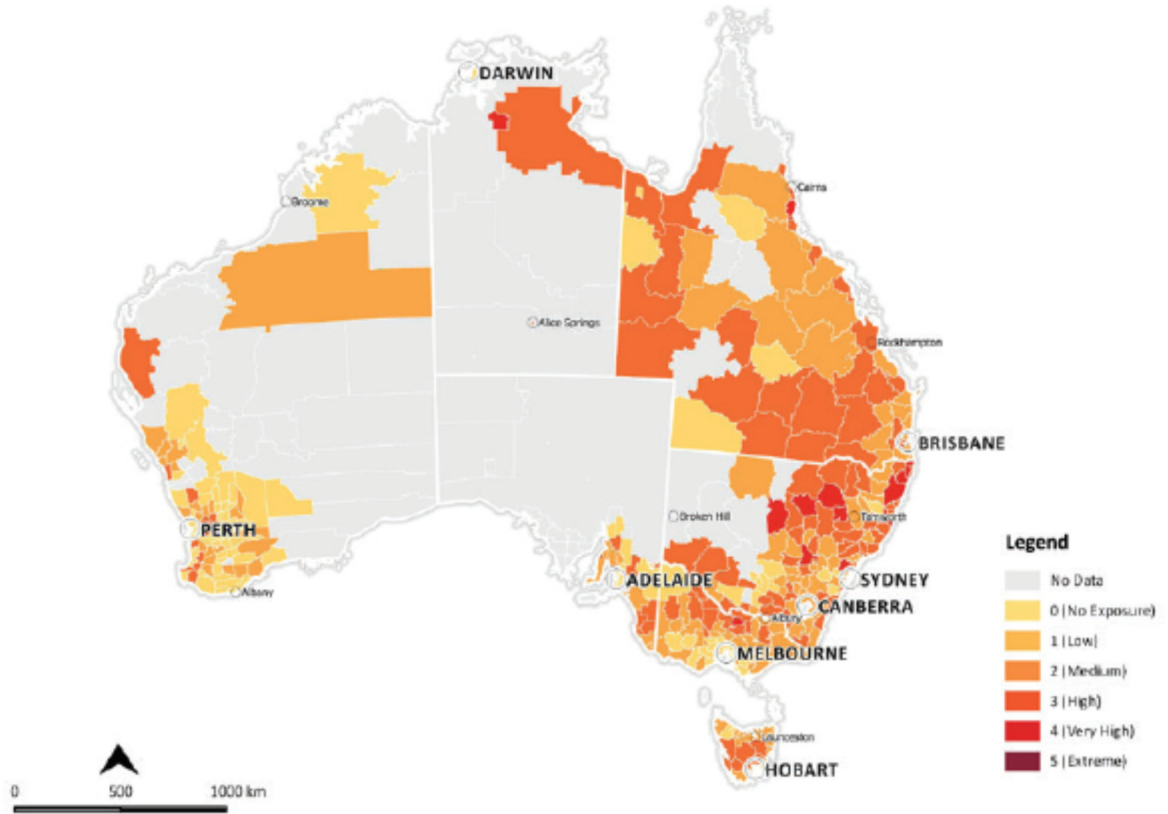
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Flood Risk



Risk Score by LGA



Source: SGS (2016) based on IAG data

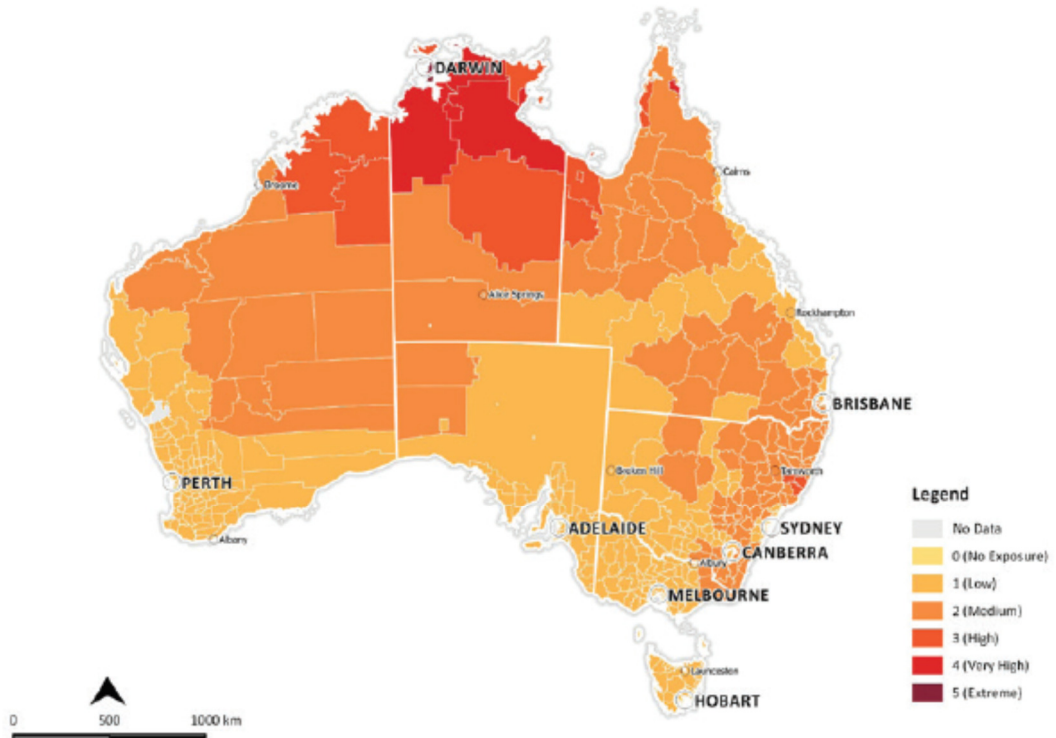
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Storm Risk



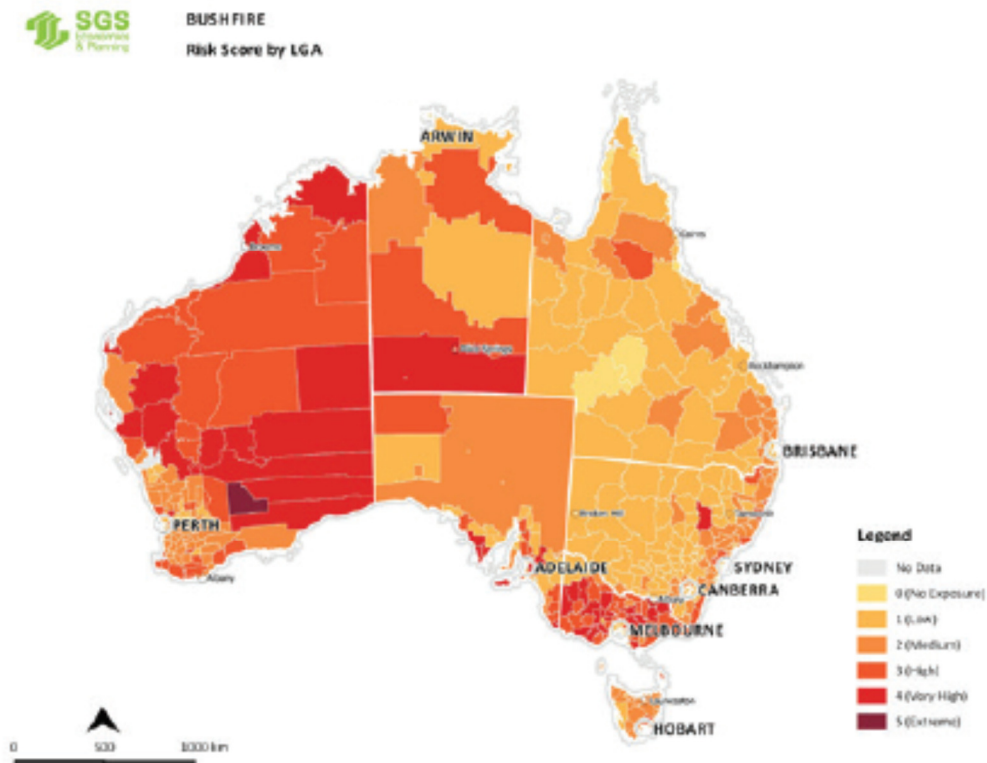
Risk Score by LGA



Source: SGS 2016 based on ICA iLEAD data

<http://www.sgsep.com.au/maps/2016/IAG/#>

Bushfire Risk



Source: SGS 2016 based on ICA iLEAD data

<http://www.sgsep.com.au/maps/2016/IAG/#>

COSTS, PREMIUMS AND PROFITS

IAG believes an appreciation and understanding of the underlying drivers of the cost of insurance is required to better inform stakeholders on premium movements. The starting point is to outline the components of a premium that a customer is charged. These components are listed in Table 1.

Table 1: Components of a premium

Charges	All applicable Government taxes and charges including stamp duty and GST.
Reinsurance costs	Reflecting the cost to purchase cover for catastrophic events and individual claims, as a cheaper alternative to raising the additional capital that would otherwise be required under prudential regulation.
Expected claims cost	The expected chance of a claim occurring and the expected cost of a claim if it does occur, which varies on the individual characteristics of each risk.
Expenses	Reflecting an appropriate share of fixed and variable expenses.



Profit margin / cost of capital Reflecting an appropriate return to shareholders and sufficient funding for other sources of capital (e.g. debt and hybrid instruments).

Investment income Insurers invest premium income prior to paying related claims, which for long tail classes may not occur for a significant length of time. Premiums make an allowance for this expected investment income, leading to premiums being lower than would otherwise be required to meet financial targets.

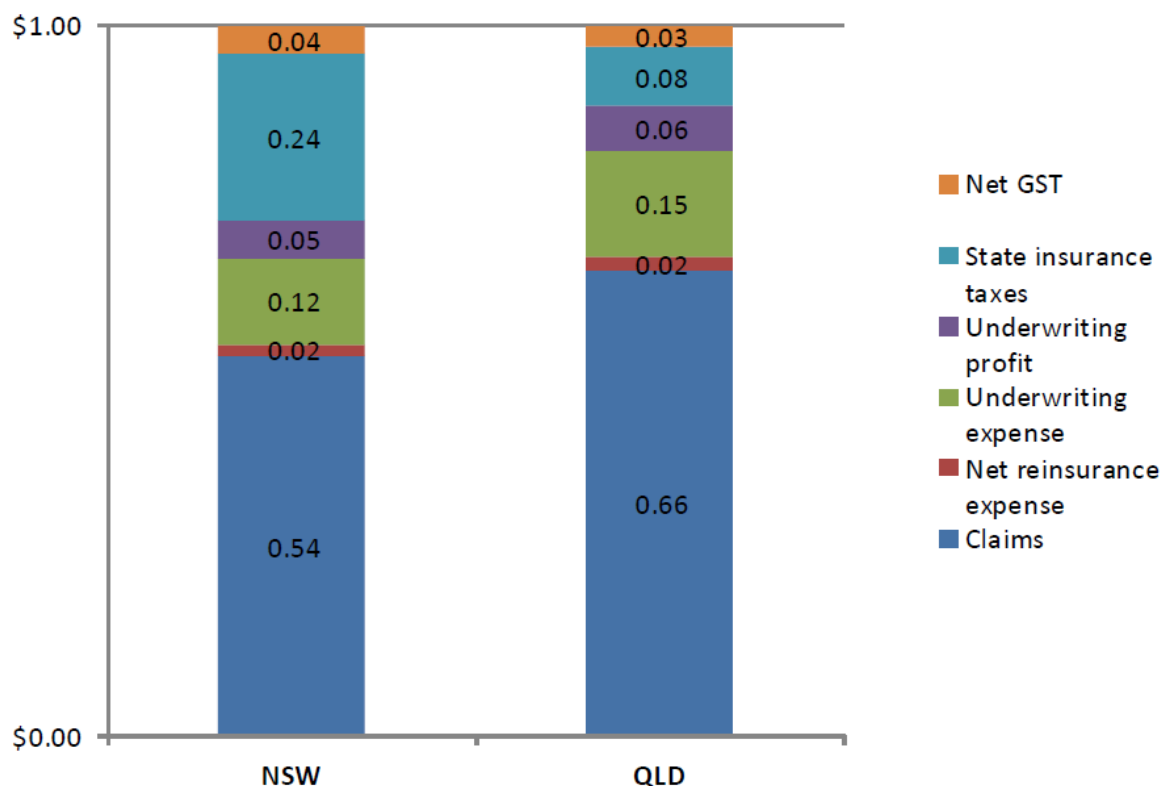
Details of the composition of an average premium for the financial year period of 2011-2016 are outlined in confidential Appendix 1.

Charges

Not all the components that make up an insurance premium are within an insurer's control. State taxes represent a significant portion of the cost of home, strata and car insurance premiums. A paper on the *Affordability of Natural Disaster Insurance* indicates that taxes "represent just over 10 per cent of the cost of household insurance premiums in Queensland and more than one quarter of premiums in NSW. All States currently apply insurance stamp duties." Details of the impact of taxes on home building insurance premiums in abovementioned States are provided in the Figure below.



Where does \$1 of home building insurance premium go?



Source: J, Douglas, M.Bowditch, A.Ni, *Affordability of Natural Disaster Insurance* (2013)

Dr Richard Tooth, Sapere Research Group notes in “Response to Northern Australia Insurance Premiums Taskforce Interim Report (September 2015):

“the affordability of insurance in Northern Australia (and Australia) is significantly adversely impacted by the imposition of state-based premium taxes. In the Northern Australian, each jurisdiction imposes a stamp-duty on building and contents insurance premiums equal to

- *in Queensland, 9 per cent (up from 7.5 per cent on 1 August 2013)*
- *In Western Australia, 10 per cent, and*
- *In Northern Territory, 10 per cent.*

The stamp-duty is on top of the good and services tax (GST). The cost of these taxes is significant. I estimate that the stamp duty on just building insurance on Northern Queensland residential properties is around \$35 million per year. An unfortunate aspect of the stamp-duty is the state and territory treasuries benefit from increases in the insurance premiums. For example, I estimate that the Queensland Government will have benefited by around \$8 million per year from the recent increases in insurance premiums.

The stamp-duty on insurance is a particularly distortionary tax relative to other taxes. Whereas, the GST is a value-added tax, the stamp duty applies more like a wholesale tax. Consider that the insurance premium may be thought of as consisting of the policyholder’s contribution to the pool of funds and a loading, which is a price to cover the cost of providing the insurance service (which includes cost of administering the pool and managing claims). The stamp duty applies to the total premium; that is, the policyholder’s contribution to the funding pool in addition to the price of the insurance service.”(p.13)

IAG believes the removal of all State Government taxes and duties on general insurance products is an important first step in addressing insurance affordability, accessibility and participation. Currently, there is an anomaly with statutory classes of insurance, with workers’ compensation and CTP exempt



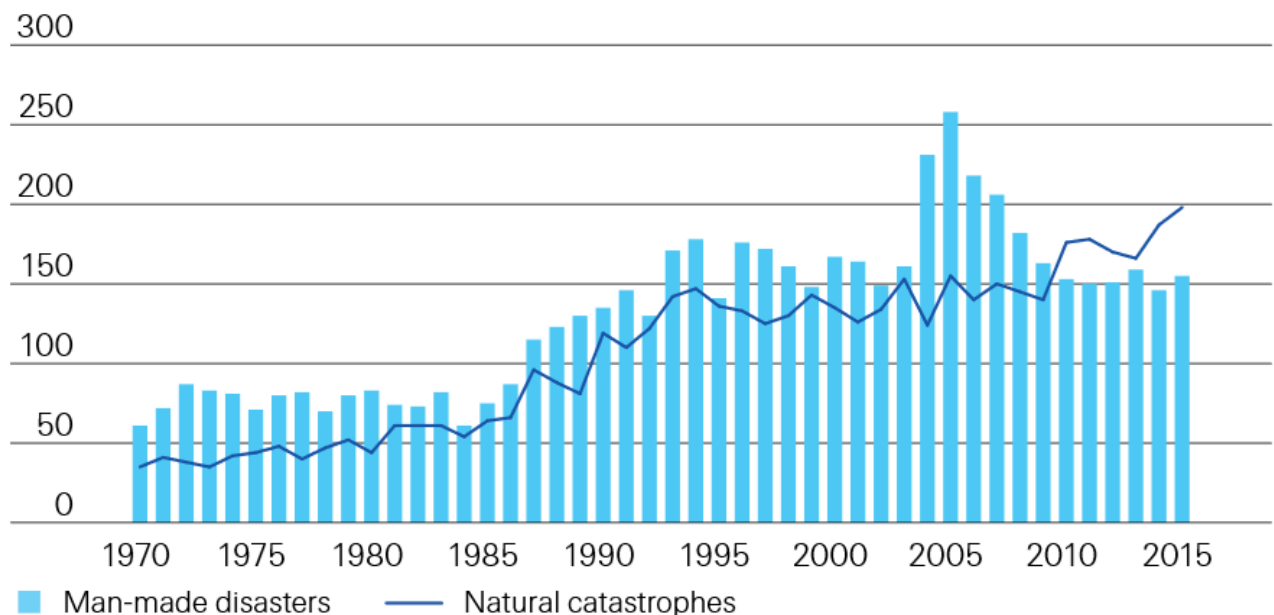
from stamp duty, while mandatory cover such as strata insurance is subject to taxes and duties in Queensland. In this context, immediate taxation relief on North Queensland insurance products, particularly mandatory products such as strata insurance, presents the most expeditious and effective means of bringing immediate premium relief to North Queensland.

Reinsurance costs

Reinsurance costs are another component of an insurance premium. Reinsurance is used to limit an insurer's exposure to large single claims and to the aggregation of claims that arise from the same event or a series of events. IAG's reinsurance program is an important part of the group's overall approach to capital management.

The reinsurance costs incorporated in Australian insurance premiums are not only the result of Australian natural perils and events but are affected by global catastrophic events. The Figure below shows the rising number of incidences of global natural perils and the number of catastrophic events between 1970-2015. According to the annual SwissRe Sigma report criteria, there were 353 catastrophe events across the world in 2015, up from 339 in 2014. Of those, 198 were natural catastrophes, the highest ever recorded in one year, and up from 191 in 2014.

Number of catastrophic events 1970 - 2015

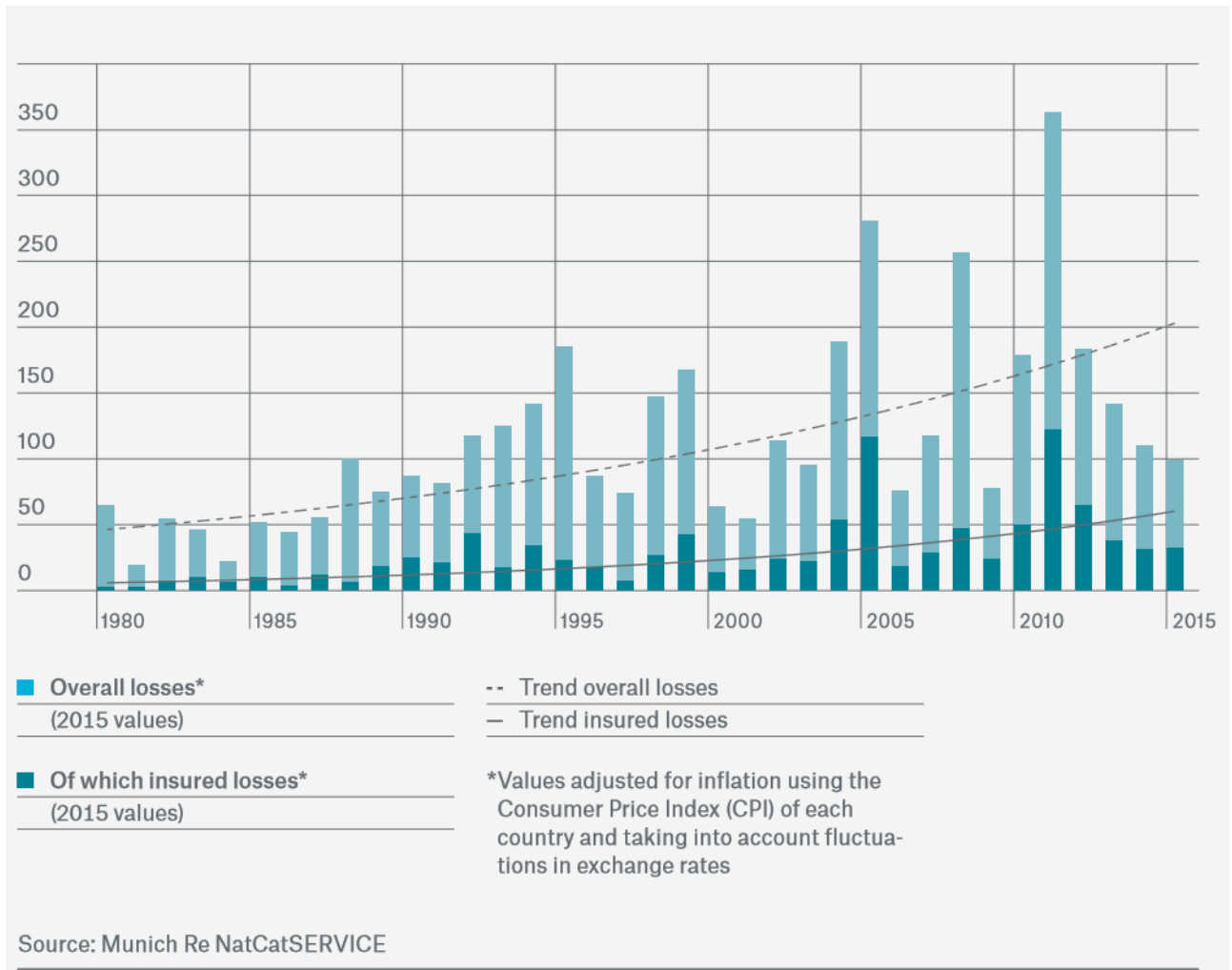


Source: Swiss Re Economic Research & Consulting and Cat Perils.

The impact natural perils have on claims costs is evidenced in figure below. Munich RE (in its 2015 global report on natural catastrophes) included the following graph showing the rise of insured losses between 1980-2015. This suggests that there needs to be an accompanying rise in premium to cater for the increase in loss severity and frequency.



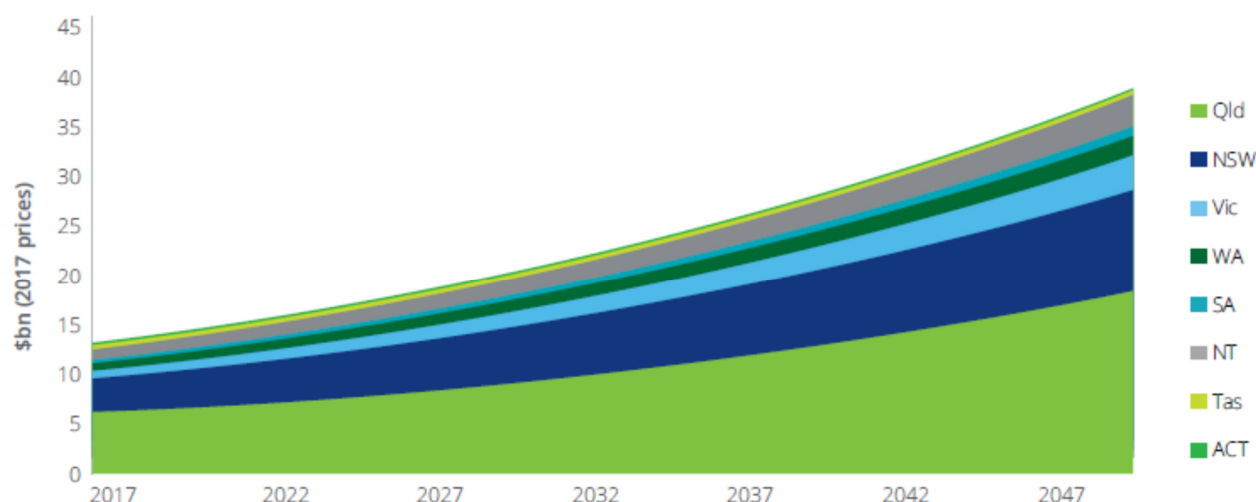
Overall and insured losses 1980 to 2015 (in US \$billion)



Turning to Australia, the type of peril and likelihood of occurrence varies depending on the geographical location. For example, Queensland has been highly impacted by flood and tropical cyclones, while bushfire has greatly impacted Victoria. The figure below illustrates the forecast scale (as measured by total economic costs) of various natural perils in Australia by State and Territory between 2017-2050.



Forecast total economic costs of natural disasters 2017-2050



Source: ICA (2017), Deloitte Access Economics estimates (2017)

Source: ABR (2017)

Expected claims cost

The incidences of natural perils affect both reinsurance costs and claims costs. This was the view held by the Productivity Commission in the *Inquiry Report into Natural Disaster Funding Arrangements*, with its projections indicating that, based on past trends, nominal insurance losses from natural disasters are likely to grow by around 5–6 per cent per annum over the next decade.

The expected cost of claims has increased in the past decade due to many factors, including: an increase in the cost of repairs; an increase in the speed with which water and fire damage spreads due to the open design of properties and the density of strata dwellings. The cost of claims has also been significantly influenced by the increasing prevalence and severity of natural perils in Australia. Over the past decade, Australia has had unprecedented exposure to natural perils.

Expenses

Expenses can be fixed and/or variable, and can vary amongst the different general insurers that offer home, strata and car insurance, depending on their structure and operational model. An insurer that provides branches for its customers will incur higher distribution costs than one that does not. Competition puts pressure on insurers to contain expenses but it should not be to the detriment of customer experience and service.

Profit margin

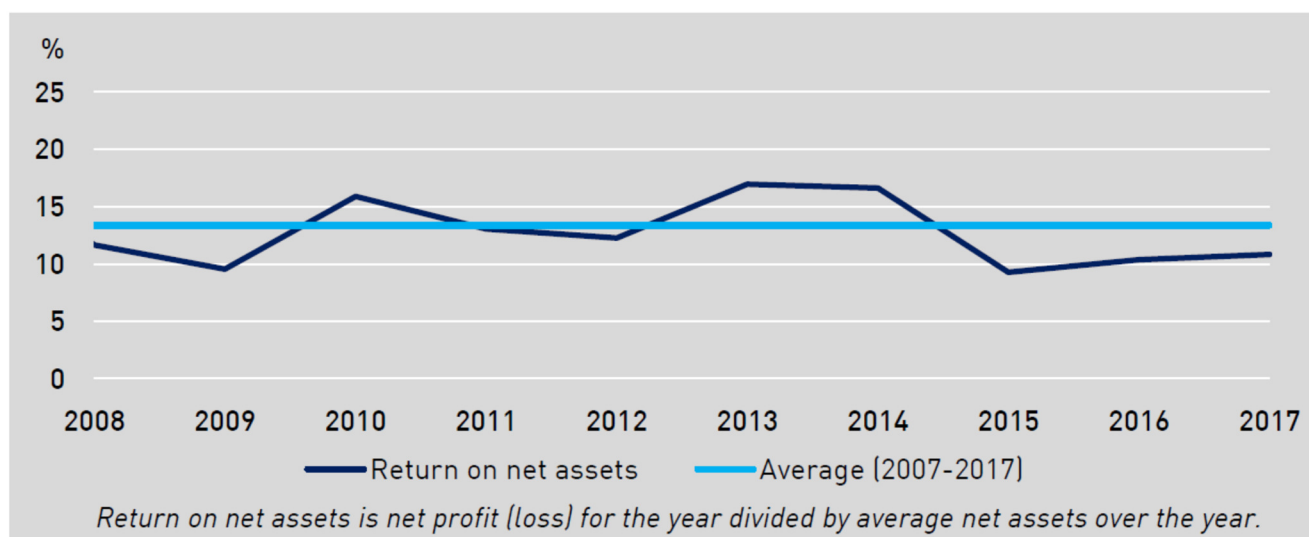
Profit margin is required for a sustainable and strong industry. Profit margin makes up a small component of a premium. The Treasury's submission to the Financial System Inquiry in 2014 found that despite rises in home building and home insurance policies since 2008, industry-wide profitability was lower than in the five years preceding 2008, with the industry recording an increase in profitability in 2013 for the first time in three years. Four of the past six years have been below this average, driven in part by claims costs from significant natural catastrophe events. The decline in profitability in 2014-2015 was mostly due to a series of storm events in New South Wales and Queensland, which resulted in a 10 per cent increase in the industry's net loss ratio.

APRA's in its submission to the Productivity Commission Inquiry into Competition in Banking and Financial Services (2017) noted the industry's profitability, "as measured by return on net assets, rose marginally in 2016-17 to 10.8 per cent. This, however, remained below the industry's ten-year average



of 13.4 per cent. The lower level of profitability in recent years has been attributable in part to a deterioration in the underwriting results in the property classes of business, with higher net loss ratios resulting from subdued premium growth and increased claims costs from severe weather events, including Cyclone Debbie in March 2017. The low interest rate environment has also contributed to the decline in profitability, with the interest income generated on insurers' substantial interest rate investment portfolios steadily falling in recent years."

General Insurance Return on Net Assets



Source: APRA Submission to Productivity Commission Inquiry into Competition in Banking and Financial Services (2017) p.15.

Investment income

In its submission to the Financial System Inquiry, APRA observed that "the performance of the general insurance industry in Australia has been strong over the past decade. Industry performance has been characterised in the main by both healthy underwriting returns and investment income, though the global financial crisis and various natural catastrophe events negatively impacted on insurers' returns in some years."

PREMIUMS

How is Insurance Priced?

At its simplest, insurance is about pooling resources to share risks. Our aim is to manage the pool and ensure there is enough money coming into it through premium payments to meet the cost of future claims as they arise. To do this, an insurance company must put a price on the likelihood of someone making a claim from the pool. This is done by estimating the chance a claim will be made and multiplying this by the average value of a claim.

For home insurance, the premium is calculated by combining:

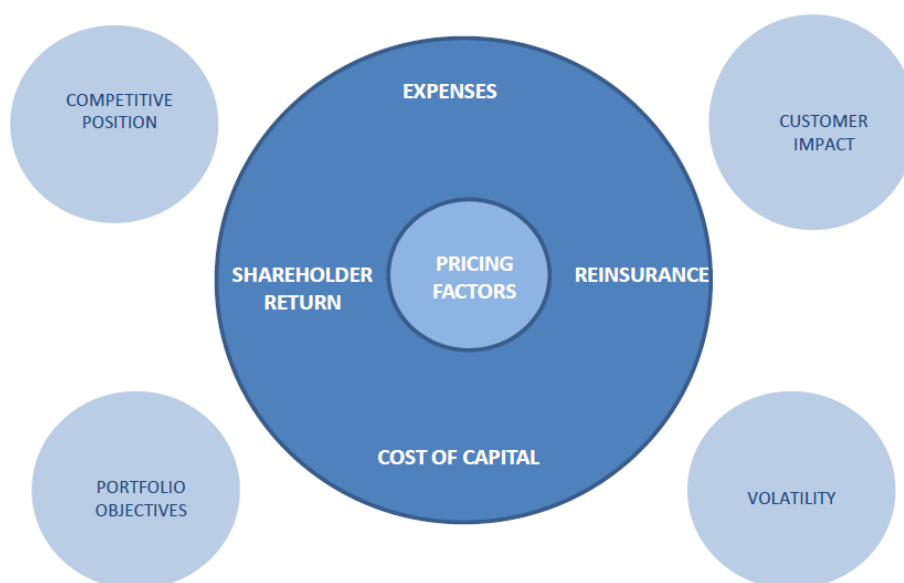
- Pricing factors (the likelihood of a claim being made)
- Discounts
- Policy options
- Cost of choosing to pay by the month



- Government charges

Other considerations that may influence the final premium include:

- Portfolio objectives (growth or profit)
- Competitive position
- Volatility (normally measured by risk of natural perils and deviation of underlying risk)
- Customer impact (for example insurers may choose to move pricing over time based on individual customer impact by applying a cap to the level of premium increase).



Pricing Factors: address level or household pricing

Pricing factors are indicators of the possibility that a claim will be made. IAG assesses an individual customer's personal circumstances to ensure their premium reflects their risk. This takes into consideration a property's exposure to uncontrolled events like storm, flooding and bushfire. Insurance premiums should reflect the risk to signal to individuals and the community the degree of risk in their locality – this provides an incentive to implement preventative and protective measures to reduce their vulnerability.

Household pricing recognises and rewards our customers as individuals, each with their own risk profile, instead of treating them as a postcode, demographic group or risk factor. We are focusing on making our pricing increasingly more granular and dynamic –this includes individual street addresses through geocoding and data on individual risk factors. This will ensure we are targeting the right risks for the right price.

IAG deploys pricing at a household level for many types of cover including extreme weather events, theft and single house fires. For example, the distance from a fire station can impact the size of a fire claim and is therefore relevant in calculating the premium. Similarly, although a customer may live in an area at risk of flooding their house may be elevated to a height that significantly reduces the potential damage that would be caused by a major flood.



Some of the things we look at for motor insurance include where the motor vehicle is kept, the claims history, chosen excess, age of the insured driver, whether the motor vehicle is privately or commercially used and the type of motor vehicle.

Common risk rating factors

MOTOR	HOME	BUILDING	CONTENTS
The address where the vehicle is kept	The location of your home	√	√
Age and gender of the owners and drivers	The amount your home and contents are insured for	√	√
The vehicle, security features and its fuel efficiency	The age of the insured	√	√
Whether the vehicle is financed and the type of finance	Who occupies the home (e.g. owner or renter)	√	√
The number and type of claims and incidents that all owners and drivers have had in the last 5 years	The basic excess amount	√	√
The amount the vehicle is insured for	The way you use the home (e.g. residential or business use)	√	√
If the premium is paid by installments	The flood risk of your home	√	√
The way the vehicle is used (private, business, driving school)	The construction material of the home and roof	√	√
	The year the home was built	√	X
	The type of alarm fitted	X	√

IAG recognises that the pace with which insurance premiums have risen in recent years has caused concern for some consumers. The Senate Economics References Committee Inquiry Report – Australia’s general insurance industry: sapping consumers of the will to compare (August 2017) - noted that “there have been several government and industry reviews relating to premium increases in home and strata insurance. These reviews have consistently found that, despite notable increases, premiums remain commensurate with the level of risk”.

An important driver of price increases for insurance in Northern Australia has been insurers more closely aligning their premiums with risks — an alignment that is desirable if insurance is to play a useful price signalling role. While this realignment has been occurring across Australia, this process is inevitably having a pronounced collective effect in North Queensland. In effect, the observed premium increases have occurred off a subsidised price base, with previous artificially low premiums on the many higher risk properties in the region paid for by other customers, the majority of who resided outside of North Queensland. It is important to note that while this premium realignment process is leading to higher insurance costs for North Queensland customers, insurance should become more affordable than would otherwise be the case for those North Queenslanders living in lower risk properties.



Significant improvements in data availability and interpretation capability are allowing insurers to assess an individual customer's circumstances to ensure their premium reflects the risk. This takes into consideration a property's exposure to events like cyclones and storms. Household pricing recognises and rewards customers as individuals, each with their own risk profile, instead of treating them as a postcode, demographic group or risk factor. This means pricing is increasingly more granular and dynamic.

Importantly, the price of insurance premiums provides a signal that can help individuals and communities make decisions about risk management.

The Northern Australian Insurance Premiums Taskforce Final Report (2015) noted "In two reports conducted in 2014, the AGA found that the higher premiums in northern Queensland compared to east coast cities largely reflected higher losses in the region and did not represent excessive profits to insurers (AGA 2014a and 2014b). The modelling commissioned by the Taskforce also suggests that current premium rates are not out of step with estimates of the magnitude of the risk."

The Taskforce also noted "While insurance premiums now appear to be more in line with the level of risk in Northern Australia, which is appropriate, there may be grounds for seeing if communities can be assisted to adjust to the significant increase in premiums. Adjustment would include putting in place long-term strategies to lower risk due to cyclones and sustainably reduce insurance premiums."

Premium Movements

The submission from the Insurance Council of Australia provides comprehensive information on insurance premiums across Northern Australia and Australia.

IAG will supply the ACCC detailed pricing information for Northern Australia and Australia as part of the Inquiry.

An analysis by the NSW Emergency Services Levy Insurance Monitor of recent quarterly change in the average base premium by State indicates base premium growth in the June quarter 2017 was consistent with levels seen in the March quarter 2017 in all jurisdictions. The Northern Territory saw the largest increase, up 1.5 per cent on the March quarter 2017, and Western Australia had the lowest increase at 0.4 per cent. Details are outlined below.



Quarterly change in average base premium by State/Territory

Quarter	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
Mar-16	0.5%	0.9%	0.4%	0.6%	0.1%	0.6%	0.8%	0.0%
Jun-16	0.6%	0.9%	0.3%	0.4%	0.0%	0.5%	0.8%	1.7%
Sep-16	0.8%	1.5%	0.5%	0.9%	0.4%	1.5%	1.0%	1.0%
Dec-16	1.0%	1.7%	0.8%	1.0%	0.6%	1.6%	1.3%	0.7%
Mar-17	0.9%	1.2%	0.8%	0.9%	0.4%	0.2%	1.0%	1.3%
Jun-17	1.0%	1.2%	0.8%	1.1%	0.4%	0.5%	1.1%	1.5%

Source: Emergency Services Levy Insurance Monitor, Quarterly Report 6 September 2017.

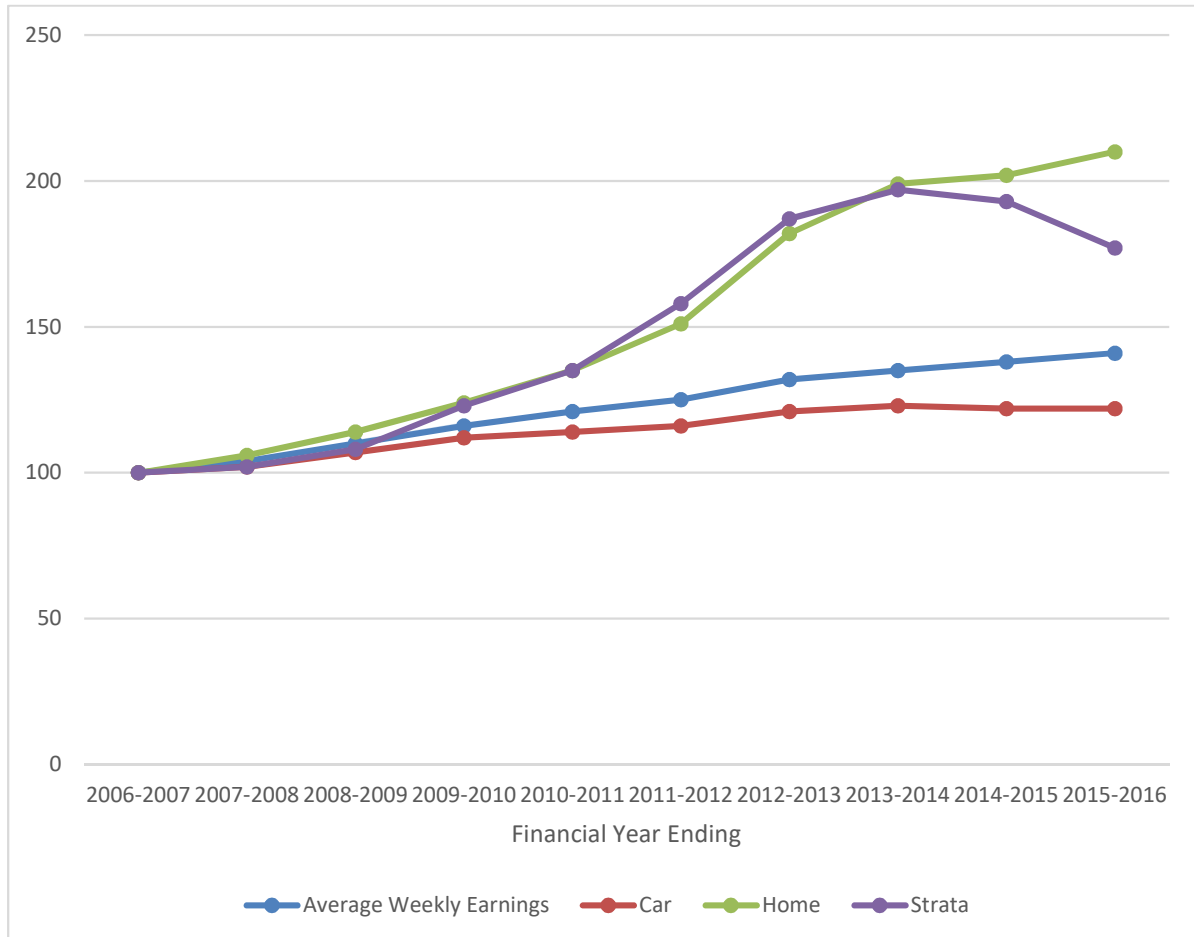
Australian Premium Movements 2006-2016

The Figures below compare average weekly earnings with the average premium growth of home, strata and car insurance for IAG brands.

The average rate of growth of car insurance premiums has remained below the growth of average weekly earnings. The same cannot be said for the average growth rate of home insurance premiums, which have increased at above the rate of average weekly earnings, more since 2011. The average growth rate of strata insurance premiums initially remained on par with the rise of average weekly earnings, rising higher in the 2009-2010 financial year before spiking in 2013-2014 and declining since then. These rises coincided with an increase in claims and reinsurance costs in addition to the incorporation of flood cover into personal insurance policies.



Average weekly earnings compared to average premium

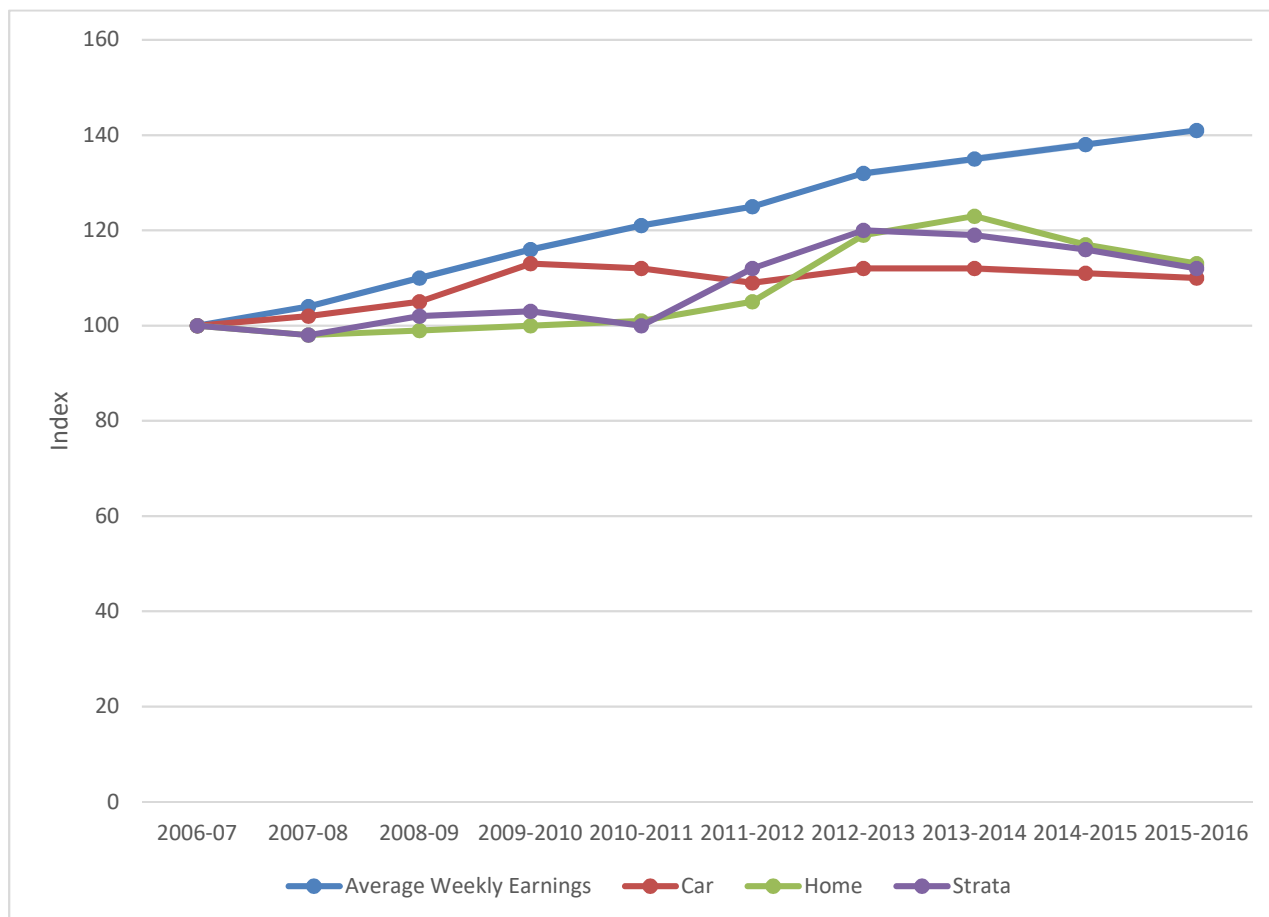


Source: ABS & IAG

The cost of a home insurance premium must be viewed in the economic context that the value of the asset has increased over the past decade. Significant work has been undertaken by the industry to improve transparency and address underinsurance. Costs to rebuild a home continue to increase not only from inflation on wages, but also factors such as changes to building standards. A more accurate indication of the movement of insurance premiums in comparison to earnings over time considers the sum insured of the asset being covered.



Average weekly earnings compared to average premium per \$1,000 sum insured



Source: ABS & IAG

Home Insurance

Analysis of average weekly earnings against average premiums reveals that the annual premium for home insurance increased at a slightly higher rate than average weekly earnings between 2006-2009. Since then the cost of home insurance has further surpassed average weekly earnings.

A combination of factors has contributed to the justifiable rise in home insurance. A key premium driver includes building and repair costs. Factored into home insurance premiums is the cost of repairing or rebuilding a home or replacing its contents. An economic insight release by CommSec in August 2016 highlights that building costs have increased at the fastest pace in 7.5 years.

Of relevance to the assessment of the cost of home insurance is the fact that we are now covering more risks in our policies. For example, from 2012 we expanded our cover to offer flood insurance as a standard inclusion in most home and contents policies.

Strata Insurance

Several of the factors that go towards explaining the increase in home insurance have also contributed to the increase in strata insurance premiums across Australia. In addition, other factors include: the location; concentration; and risk attributes of strata dwellings.



Location

Many strata buildings are situated in areas of high risk, such as next to the coast. This places these dwellings at higher risk of cyclone damage than inland properties. For example, there has been extensive strata development along the coast of Queensland and New South Wales in the last 10 years, particularly northern Australia that are more prone to cyclonic and storm related damage.

Concentration

As opposed to insuring 100 homes dispersed over a large area, a residential strata building may comprise 100 homes on a smaller square footage. If a storm hits that area it could lead to a higher number of claims than if the risk was spread across a broader geographical area. This level of concentration is further exacerbated by the number of strata buildings concentrated within medium density corridors throughout our major centres. High levels of concentration directly impact higher reinsurance costs.

In recognition of the pressures on strata premiums IAG launched the Strata Resilience project, which implemented pre-disaster mitigation measures. In 2015 the project delivered \$1.3 million of savings to CGU strata property customers in North Queensland.

Risk attributes

The style and nature of strata building construction has changed in recent years with homeowners demanding higher-end finishings (for example, the inclusion of stone benchtops rather than laminate and timber flooring rather than carpets). Additionally, individuals who own older properties are undertaking rejuvenation and renovation projects to include such finishings. These factors are contributing to the cost of repairs when these items are damaged or destroyed, directly impacting premiums.

The increased demand for medium and high-density living resulting in high-rise developments drives the need to include facilities such as lifts, sprinkler systems, cooling towers for central air conditioning, underground car parking and shared recreational facilities such as pools, gyms and tennis courts. This high-value infrastructure adds to the sum insured, resulting in increased average premiums.

COMPETITION IN THE GENERAL INSURANCE MARKET

The general insurance market in Australia is mature and sophisticated in terms of its product offering, risk assessment, and management. The sector is competitive and dynamic with ever increasing transparency of pricing and policy features. It is serviced by a large number of insurers, providing a wide range of products to customers. There is intensive price, service and product competition. Customers have access to a healthy range of products from which to choose and they can take advantage of special features such as loyalty and multi-policy discounts. The general insurance market is stable because it is consolidated and disciplined in risk-based pricing of its products.

IAG asserts that the level of competition and prudential regulation is strong enough to provide consumers with confidence that their insurance will be available if they need to make a claim.

Dr Richard Tooth, Sapere Research Group notes in "Response to Northern Australia Insurance Premiums Taskforce Interim Report (September 2015):

"Markets can also fail to provide efficient outcomes when individual firms hold excessive market power due to a lack of competition. This does not appear to apply to the market for insurance cover for cyclone risk in Northern Australia. There are several insurers currently providing building and contents insurance in Northern Australia. Furthermore, even when the market is serviced by a very limited number of insurers, these insurers will only have market power when



there is a barrier to entry that prevents other insurers contesting the market. This also does not appear to be the case with regard to cyclone risk" (p.13).

We believe that within the general insurance industry there are three layers of competition: across the various insurers; within insurers themselves through their assorted brands and coverage; and because of digital disruption.

Across insurers

The North Queensland home insurance market is competitive and contestable. Several insurers offer home insurance products in North Queensland. Details of insurers operating in North Queensland are outlined in ASIC's North Queensland insurance website at <http://nqhomeinsurance.gov.au/insurers>

ASIC note "that this does not include all insurers offering home insurance in North Queensland. All insurers on this list are those that provide home insurance directly to consumers. Insurers who offer their products exclusively through brokers are not compared on this site."

In relation to the strata insurance market the Australian Government Actuary noted "*While it is true that there is limited competition in the NQ strata title insurance market, it is not clear that this has resulted in prices which are unreasonably high when assessed against the underlying risk.*"

The Northern Australia Insurance Premiums Taskforce Interim Report noted "*there are 12 insurers offering home insurance policies directly to customers in Queensland, although not all companies operate in all regions. Around 12 insurers also operate in the Northern Territory*" (p.13). Moreover, the Interim Report noted "*in the strata insurance market, brokers report that there was a period where there was only one insurer in the north Queensland market, but that two additional underwriters have recently entered the market.*" (p.13)

The Interim Report also noted that the extent of competition in the market can also be judged by whether premiums increase beyond a reasonable level and highlighted the Australian Government Actuary findings that the "*higher premiums in northern Queensland compared to east coast cities largely reflected higher losses in the region and did not represent excessive profits of insurers*" (p.14)

In its submission to the Financial System Inquiry (2014), the Treasury highlighted that the Australian general insurance industry is largely open to the entry of new insurers, including foreign insurers. The Treasury noted that there has been an intensification of competition and contestability broadly across the general insurance sector in recent years, with new entrants offering a range of general insurance products and capturing market share by advertising aggressively and offering cheaper premiums and/or enhanced product features. The Treasury also highlighted that contestability in the general insurance market is reflected in trends in profitability, notwithstanding a popular perception that a lack of competition is driving rising premiums.

Within insurers

The home, strata and car insurance market in Australia is relatively mature and sophisticated in terms of product offering and risk assessment and management. It is serviced by many insurers and consumers have access to a healthy range of products, many of which include optional cover enhancements that they can elect to purchase. Consumers can take advantage of special features such as loyalty and multi-policy discounts.

Core products

Insurers often offer consumers a base coverage as well as optional additional coverage at various price points. For example, a NRMA Insurance home customer has numerous choices available through different policies at different prices. NRMA Insurance customers can obtain: Home Buildings, Home Contents, Home Buildings & Contents, and Strata Title products, amongst others.



Individual policies vary depending on a variety of factors including:

- Type of insurance (i.e. home buildings, home contents or combined home building and contents)
- Level of cover (i.e. standard home insurance or premium home insurance cover, which provides a higher level of cover)
- Amount of insurance (i.e. sum insured value of home buildings or contents)
- Amount of excess chosen by consumers
- Listed events covered (i.e. fire, theft, storm, flood and earthquake, vandalism, broken glass, animal damage, water and oil leaks)
- Optional cover (i.e. accidental damage, burn out of electric motors-fusion and pet cover, valuable contents and portable contents)



Home Buildings

We'll rebuild or repair your home if it's damaged or destroyed.

Plus, if you can't live in your home we'll provide temporary accommodation for up to 1 year. That way you'll have a roof over your head while your home is being rebuilt.



Home Contents

We provide new for old replacement of your household contents and personal belongings.

Even if you leave a window or door unlocked in your home we've got you covered.



Home Buildings & Contents

Protect your home inside and out with our Buildings and Contents combined insurance.

You're covered for a range of events and household items. Plus, we have a lifetime guarantee for any authorised repair work on your home.



Renter's Contents

Cover your furniture, whitegoods, computer equipment, clothing and more from as little as \$7.15 a week with NRMA Renter's Insurance in NSW.



Landlord

Protect your rental income, plus your investment property and its contents against loss or damage with NRMA Landlord Insurance.



Strata Title

Protect against loss or damage to your strata title building, including common property and contents.

NRMA Insurance customers can also select from four different car insurance products, each of which provide a different level of cover: Comprehensive, Comprehensive Plus, Third Party Property Damage and Third Party Fire & Theft, as shown below.



Comprehensive

NRMA Comprehensive Car Insurance covers your car for accidental damage, collision or crash, severe weather, theft, vandalism or malicious acts. Plus we cover the extras on your car like alloy wheels, sunroofs and custom sound systems.



Comprehensive Plus

Receive the protection of NRMA Comprehensive Car Insurance, with extra services such as unlimited hire car if your car's damaged or stolen, until it's repaired or your claim's settled and excess-free windscreen protection.



Third Party Property Damage

Third Party Property Damage offers a basic level of protection covering you for damage you cause to someone else's car or property. It also covers damage to your car caused by an at fault driver for up to \$5,000.



Third Party Fire & Theft

Cover for damage you cause to someone else's car or property up to \$20 million, with additional fire and theft protection for your own car up to a market value of \$10,000.



Veteran, Vintage & Classic Vehicle

Tailored car insurance for vehicles older than 15 years and used for hobby or recreational purposes.*

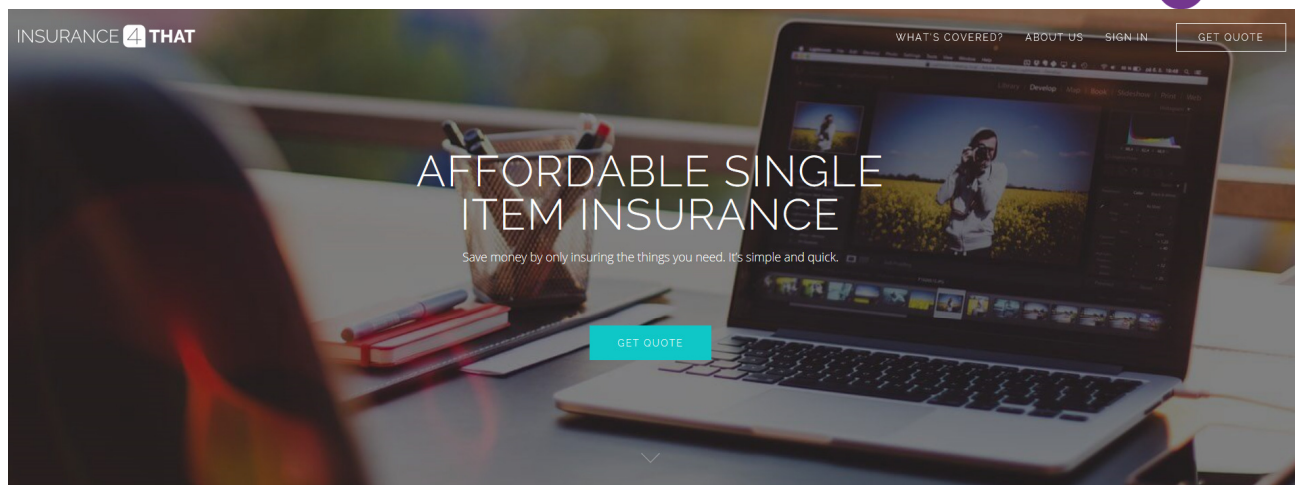
* Subject to acceptability criteria.

Digital disruption

Technology and changing customer behaviour is also driving additional competition in the general insurance industry, both within traditional products and across components of the insurance value chain.

Strong competition and technological advances support innovation. IAG is committed to educating our customers and broader community on the risks they face so they can be adequately covered. For example, in 2016 IAG developed and piloted First Place, a virtual reality experience designed to educate millennials about insurance risks around the home. This focused on engaging with millennials to ensure they have adequate understanding of how to protect themselves when they move out of home for the first time.

Another initiative is Insurance 4 That, a simple insurance solution that provides an alternative to traditional contents insurance by enabling people to insure individual items at an affordable price.



FOR LESS THAN YOU THINK

Electronics, cameras, musical instruments and more.

In addition to the core product suite available to customers, new innovative and tailored products have introduced additional competition to the market. Existing insurers are motivated to continually improve their offerings to better address customers' needs as technology becomes more advanced. An example of how innovation will continue to drive competition is the presence of disruptors. These companies are disrupting components of the traditional insurance value chain. For example, niche players, such as specialised claims management firms, are offering the same services that have traditionally been provided by insurers, forcing general insurers to be more innovative and competitive. At IAG the emergence of disruptors and the changing need of our customer base has driven us to reconsider the ways we have traditionally offered our insurance products, and become more digitised. IAG is committed to becoming a customer-led and data driven organisation that can adapt quickly to the rapidly changing environment.

Low barriers to entry and a high number of insurance providers

There have been a number of new entrants, often referred to as 'challengers', who have been able to enter the market and quickly gain market share over the past five years.

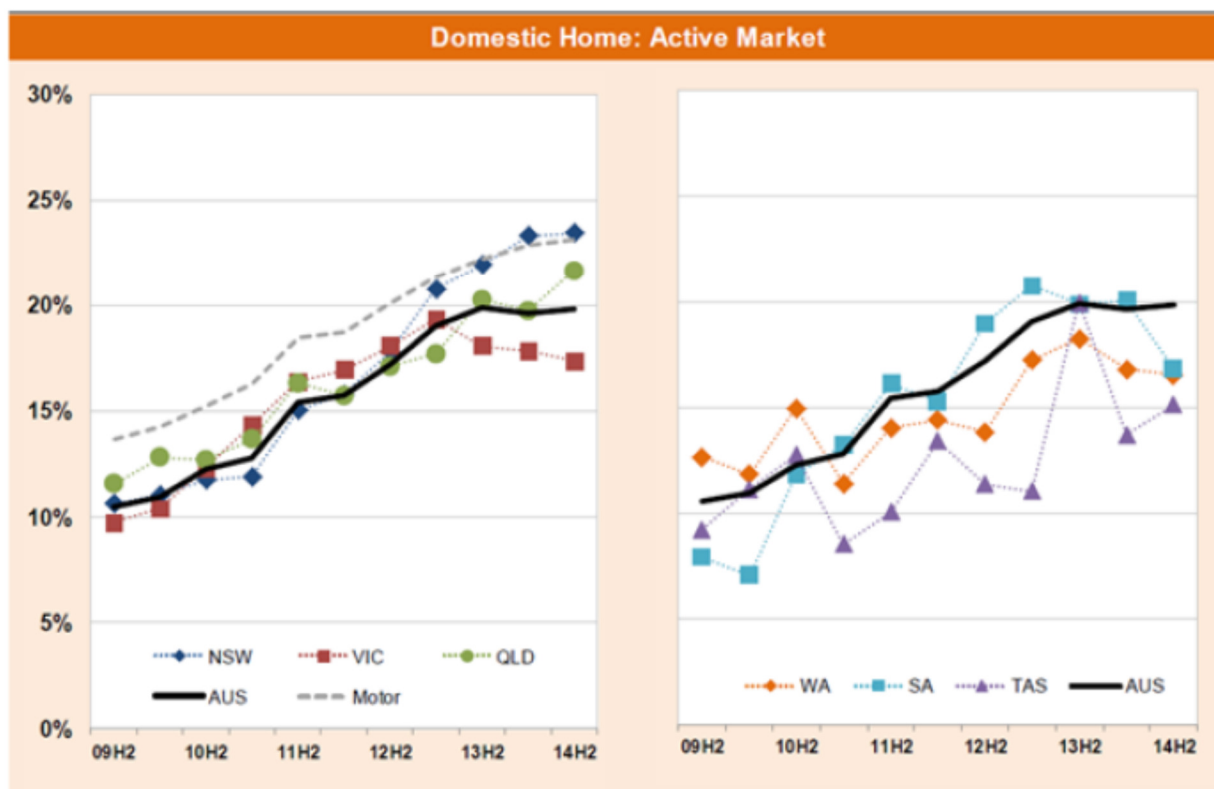
In addition to the large number of insurance providers, there is a large number of insurance products which suggests that there is effective competition on the 'supply side'.

Increased levels of shopping

A 2015 report from Finity Consulting (*Market Movement Musings*, 30 April 2015) shows that the proportion of customers actively shopping for home insurance has been increasing over time.



Shopping with the Domestic Home Market



Active Market: Sum of those purchasing for first time and existing customers who shopped

Source: Finity Consulting 2015.

Low barriers to switching

It is relatively quick and easy to switch insurance providers. Nearly all insurers provide customers with the ability to get a quote and buy an insurance policy online. Switching only takes a few minutes and does not require income, bank or property statements. In comparison to other financial products like credit, personal loans or mortgages where evidence and pre-approval is required; we believe that there are low barriers to switching between general insurance providers.

It is for these reasons that IAG considers there to be a high (and increasing level) of competition within the general insurance market in Australia.

TRANSPARENCY IN THE GENERAL INSURANCE MARKET

General insurers face unique challenges in making insurance underwriting data available due to the inherently commercially sensitive nature of the data. Significant intellectual property is associated with the actuarial modelling that underpins insurance data sets, together with proprietary and license restrictions on some of the data used. Underwriting data also forms the basis for competition between insurers.

Increasing the transparency of insurance enables consumers to understand the purchase of insurance, their risk and coverage. In this respect, a co-ordinated, strategic response is required to increase the community understanding of insurance. This strategic response should encompass community



insurance education programs, promoting the value of insurance and making it easier for customers to read and understand their policies.

Community insurance education programs

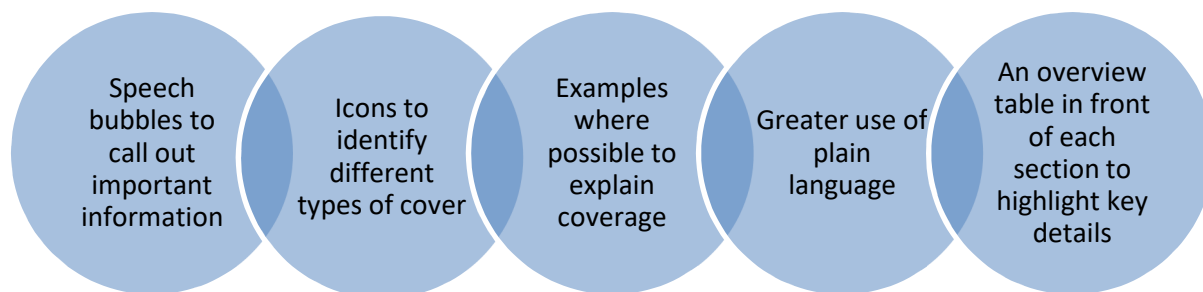
Community insurance education programs are necessary to support and complement risk awareness and risk reduction. A key part of these programs is to help consumers understand that price reflects risk. IAG has taken steps to increase access to information through various initiatives, such as the report IAG commissioned with SGS “*At what cost? Mapping where natural perils impact on economic growth.*” The report analysed Insurance Council of Australia (ICA) data as well as IAG flood data and includes interactive maps and data files that are publicly available at <http://www.sgsep.com.au/maps/2016/IAG/#>

Explaining the value of insurance

Explaining the value of insurance is important. Insurance protects the individual and promotes financial stability by alleviating the welfare burden on governments. It stabilises the economy by allowing for quicker reconstruction and reestablishment following natural disasters.

Making it easier for customers

IAG is committed to its role in ensuring customers not only receive adequate information about their insurance policies, but also understand them. With this in mind, NRMA Insurance, SGIO and SGIC undertook a program in 2014 to rewrite their respective motor insurance Product Disclosure Statements after a review featuring in-depth customer research and surveys. The changes implemented were to ensure the PDSs were more transparent in terms of being easier to read, clearer and calling out relevant information to customers. The changes made were:



Further reviews have taken place to improve customer understanding and to ensure compliance with legal and regulatory changes.

In 2016, IAG implemented a number of changes to the NRMA Insurance Comprehensive Motor Renewal Certificate of Insurance. The revised Renewal Certificate improves transparency, enables increased awareness of the insurance cover and provides customers with easy to understand information so that they can make informed decisions.

The industry is also working together to increase the level of transparency. IAG was represented on the ICA's Effective Disclosure Taskforce which developed a report titled "Too long, didn't read", released in 2015. The Taskforce found a notable absence of empirical research around how consumers use disclosure documents to inform their decision-making. Rather than focusing on any radical immediate change to the mandated disclosure regime, the goal was to first thoroughly research consumer needs to provide a resource to help members improve their customers' decision-making processes. The ICA is working with members, and consulting with key stakeholders, to develop effective disclosure principles that are informed by the findings of the research. These principles will be considered for adoption by the current Review of the General Insurance Code of Practice. In the interim, IAG will continue to enhance efforts to engage customers on product information and facilitate informed decision making with customer-tested, evidenced-based solutions.

COMPARATIVE WEBSITES

IAG's concern in relation to comparative websites is that a comparison service would only emphasise price rather than educate consumers on the insurance they require, the coverage provided by the various products compared and the steps they can take to mitigate their risks.

Other Industries

Unlike other industries (such as travel, where the commodity being compared such as a flight or hotel room is the same), the risk profile and therefore premium for one person's home, strata property or car can vary significantly from another person's. For that reason, websites that provide a range of prices for an identical commodity such as Hotels Combined or Trivago should not be considered as relevant comparative services.

With respect to home, strata and car insurance and to avoid misleading consumers on the actual premium they will be required to pay, any comparative service would require a level of granularity that would defeat the intended purpose. This is attributable to the fact that the ultimate quote or premium for an individual can be influenced by several factors such as years of loyalty, level of excess, level of coverage, geographical location and other pricing factors such as claims history.

This view is shared by both the UK Regulators Network and European Insurance and Occupational Pensions Authority who noted that, while Price Comparison Websites (PCW's) compare price well they are not as good at comparing the value of products. Over-simplification can result in consumers purchasing products that are not suitable for their needs.



Domestic Experience

An independent comparative service that provides consumers with a national overview is privatehealth.gov.au. This website was established by the Private Health Insurance Ombudsman (PHIO) for allowing consumers to access standard product information for their health insurance product and compare it with other products offered by their own and other health insurers. However even this government run website has limitations. The disclaimer provided by the PHIO recognises that the website may not consider detail that could be significant in your context, or to particular persons. Another section of the disclaimer reads, “While PHIO endeavours to ensure the accuracy of the information set out on this website, the information may not be accurate, complete or up to date, for a wide range of reasons. You should not make any decision or take any action, based on the information in this web site, or otherwise rely on it for any purpose.” It is questionable whether comparative websites (private and government run) have led to a reduction in premiums in the private health sector, given the rate at which private health insurance premiums have risen since 2009.

Home, strata and car insurance premiums are calculated based on an individual's risk profile, unlike private health insurance where as long as two separate individuals purchase the same type of cover they would pay the same price.

Existing insurance comparison websites in Australia have attracted the scrutiny and concern of regulators, indicating that a proliferation of these sites could lead to issues like those faced in the UK.

Australian regulators have previously expressed concern about comparison websites. In their response to the Financial System Inquiry in 2014, APRA noted that,

- “... comparison categories may aid comparison but do not solve the underlying problem of comparing differences in terms and conditions that can exist even where policies are targeted, for example at particular consumer categories; and
- In principle, it would be possible to design a comparator site that enabled consumers to compare both price and key policy terms and conditions. However, there is a balance between simplicity and complexity, and meaningful comparisons may not always be feasible”.

Australian Securities and Investment Commission Deputy Chair, Peter Kell has expressed concern about comparator websites failure to disclose which insurers are being compared for quotes, how rankings are compiled and the use of special offers and “featured products”.

International experience

United Kingdom

IAG cautions against the introduction of a comparative service as it would not have the desired effect of lowering prices or increasing competition and transparency. This view is shared in several independent reviews of price comparison websites. The UK Regulators Network report revealed that the listing of products by price is not sufficiently personalised to reflect the level of cover needed. Consumers are much more likely to pick the cheapest product when presented this way irrespective of product suitability.

In July 2014, the UK Financial Conduct Authority (FCA) released the ‘Review of price comparison websites in the general insurance sector’ - its second review of general insurance PCW in three years due to concerns that customers were being treated unfairly. The Review focused on motor, home and travel insurance because they are the general insurance products most commonly purchased through a PCW. The review found that PCWs did not always ensure that consumers were given the appropriate information to help them make informed decisions.

Furthermore, the apparent success of comparator websites in the UK is questionable given the financial investment that is required to advertise those services. The Competition & Markets Authority, when investigating the UK private motor insurance market, found that they invested heavily in advertising and marketing. The example referred to in Moneysupermarket’s 2011 Annual report which revealed that its marketing investment amounted to \$78 million in that year, corresponding to around 43% of its revenue.



The experience in the UK highlighted a number of issues for consumers and Government that must be overcome before the Committee should consider the introduction of an independent comparative service. These issues include that an independent comparative services:

- Does not facilitate effective and informed decision making;
- Focus on price may exacerbate underinsurance;
- Pose a danger of over emphasising price over other considerations such as coverage; and
- May be misleading due to discrepancy between actual and comparison price.

Comparative websites provide simplistic and often an inaccurate overview of insurance policies. They reduce the purchasing decision to one based on price alone. In our view, this leads to a “lowest common denominator” approach where consumers make purchasing decisions without due regard for differences in policy cover, product options and claims service capabilities, ultimately to their detriment.

REGULATION

General insurers are subject to the corporate regulatory regime that applies to Australian incorporated businesses generally. This includes the legislative regimes of the *Corporations Act 2001*, the *Australian Securities and Investments Commission Act 2001 (the ASIC Act)*, the *Competition and Consumer Act 2010* and, for public listed companies, the requirements of the Listing Rules and Corporate Governance Principles and Recommendations of the Australian Securities Exchange (ASX).

General insurers must hold an Australian Financial Services (AFS) licence in accordance with the *Corporations Act 2001 (Corporations Act)*. Section 912A of the Corporations Act provides, among other matters, that an AFS licensee must have a dispute resolution system consisting of specified internal dispute resolution procedures and membership to one or more Australian Securities and Investment Commission (ASIC) approved External Dispute Resolution schemes. As AFS licensees, general insurers dealing with retail clients are members of the Financial Ombudsman Service.

General insurers are also subject to a range of industry specific regulations at Federal (e.g. Insurance Act 1973, Insurance Contracts Act 1984 (the Insurance Contracts Act)), State and Territory levels. These regulations subject insurers to prudential supervision. They also deal with aspects of market conduct, consumer protection and the various statutory insurance schemes which operate in each State and Territory.

The Insurance Contracts Act places an obligation on insurers and those they insure to act with utmost good faith towards each other, preventing either party from relying on a contract provision that would be contrary to this requirement. This duty is an historic and fundamental principle of insurance that is codified in the Insurance Contracts Act.

The general insurance industry also adopts the Insurance Council's General Insurance Code of Practice (The Code). We note that adoption of the Code is voluntary and, while not all general insurers are signatories, IAG believes that industry self-regulation provides a benchmark standard. Once this standard is set, there is a strong incentive for individual companies to exceed the benchmark to attract customers and expand market share. IAG acknowledges the key role The Code plays in improving service standards in the insurance industry. We have adopted The Code and we have a long-standing commitment to complying with it.

IAG considers that the existing regulatory regime covering general insurance provides consumers with a high level of protection. Moreover, consumers are likely to receive additional protection when financial services products issuers and distributors become subject to additional obligations under the Australian Government's proposed “Design and Distribution Obligations and Product Intervention Power”.



RISK MITIGATION

IAG believes the most effective way to address longer-term insurance affordability, accessibility and participation in Northern Australia is through a nationally coordinated and well-resourced disaster resilience program that reduces the impact of extreme weather events.

IAG supports a co-ordinated and collaborative approach, involving the three levels of government, community and insurers, to managing the impact of natural disasters on the community. The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned research (2013) *'Building our Nation's Resilience to Natural Disasters'* demonstrated that carefully targeted resilience investments of \$250 million per annum have the potential to generate budget savings of \$12.2 billion for all levels of government and would reduce natural disaster costs by more than 50% by 2050.

This Paper noted 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.

Information is critical to understanding and managing natural disaster risk. Information on hazards and risk exposure has improved significantly in recent years, but there are opportunities to improve its consistency, sharing and communication.

IAG believes the key to better understanding impacts of natural perils is the availability of accurate, current data and relevant research. Yet, crucial natural disaster information is difficult and costly to access, often incomplete or out of date and frequently duplicated across sources.

Through the research set out in the Business Roundtable's commissioned Report (2014) *'Building an Open Platform for Natural Disaster Resilience Decisions'* the Business Roundtable show that a fresh approach to the collation, co-ordination and analysis of natural disaster information and research is fundamental to the prioritisation of mitigation decisions that will help strengthen and safeguard our communities.

As outlined in *'Building our nation's resilience to natural disasters'*, the responsibility for the provision of risk information in an accessible and usable way lies primarily with government. Natural disaster information has some public good characteristics. The use of information by one party does not impact its availability for use by others, but it is excludable. Overall, it has positive externalities, and is therefore classified as a merit good. Accordingly, the net benefits associated with producing information on natural hazards and resilience measures will increase as wider distribution is promoted.

BUILDING STANDARDS

Regulations affecting the built environment have a considerable influence on the exposure and vulnerability of communities to natural hazards. While building regulations have generally been effective, there is evidence that land use planning is not always incorporating natural disaster risk. *'Building our Nation's Resilience to Natural Disasters'* also reflects this sentiment; *"Supporting an increased effort to co-ordinate and update existing data, natural resource mapping and assessments that may exist across government departments, needs to be prioritised and integrated into land use planning."* IAG believes that this will enable government to provide a more informed and consolidated approach to planning decisions and land management.

Both the 2013 and 2014 Business Roundtable Papers recommend the importance of prioritising the collection and co-ordination of national natural hazard data, to properly inform state and locally based land use planning reforms. Only when this has been completed can the national building codes be geographically addressed accurately and adequately. Until now, building code standards have focused, in principle, on protecting life and safety. The Business Roundtable suggests that following the development of accurate data, there is further scope to enhance building standards so that they also cost-effectively protect the property itself, its owner's financial interest as well as potential disruption to



people's lives with all the attendant intangible and indirect costs, and health and social impacts without sacrificing safety performance.

It is of note that post-event analysis of building damage after several major natural disasters indicates there is a crucial role for government to support community resilience by ensuring that new buildings in 'at-risk' areas are constructed to withstand hazards such as tropical cyclones, storm surge, severe storms, hailstorms, bushfires and flood. For example, it was found that changing the building code for South East Queensland could be expected to reduce damage from a cyclone by around 66%. This figure was based on historical analysis of the performance of housing in northern Queensland that was built before and after the introduction of similar standards.

An analysis by James Cook University of structural damage to buildings following cyclone Yasi indicated that buildings correctly designed and constructed to the standards/requirements introduced in the 1980s sustained a much lower incidence of damage. IAG's current cyclone premium for post- 1980 buildings subsequently has a discount applied.

Building codes that require the use of resilient and/or resistant materials or design are – where implemented and enforced - also likely to reduce the extent of damage to a property which will in turn reduce the cost incurred by insurers in repairing the property. Building codes will also determine how the repair or rebuild is undertaken.

One potentially useful approach could be to develop a form of resilience rating given to buildings, and especially external claddings and internal walls in flood prone areas - like the star ratings systems used for energy efficiency and water use. A five-star cladding, solar panel or air conditioner should be able to withstand the wind effects of a Category 5 cyclone, for example.

Once resilience ratings were widely in use there would be scope for the insurance industry to offer lower premiums to those people in more resilient buildings compared to those in unrated buildings, thereby providing a financial incentive for individuals to try to self-protect and a tool for the construction industry to offer more resilient buildings to clients.

Business Roundtable's commissioned research papers outline a new approach to pre-disaster investments in Australia. They highlight the importance of integrated information and activity across governments, businesses and communities. By centralising decision-making and funding, and establishing a national research agenda, government will be better able to co-ordinate and prioritise resilience activities across relevant departments and levels of government.

COMMUNITY EDUCATION

Community engagement and education are also critical components of building resilience. To be most effective this requires longer term commitment of resources and activities than is currently available.

IAG works proactively to educate the community on the risk of natural perils. Across the country we run joint campaigns with our community partners to encourage the community to prepare their homes to help prevent the risk of property damage through weather events. As part of this, we encourage consumers to check their level of insurance cover and participate with our organisation in ways other than just at sales and claim time.

IAG's product documents are explicit about what is and is not included in the cover being sold. Indeed, policy terms and conditions, including coverage and exclusions are clearly outlined in Product Disclosure Statements and communicated to customers.

Disaster risk awareness and risk reduction education are effective when the public, private, education, and community sectors collaborate. To involve these many stakeholders, cross-sectoral platforms such as disaster risk reduction task forces or networks can promote a collaborative process for the creation, implementation and dissemination of risk awareness and risk reduction education programs and strategies.

If you wish to discuss this submission or make further inquiries please contact David Wellfare, Senior Manager, Public Policy & Industry Affairs on (02) 9292 8593.