National Legal Aid

Impact of Climate Risk on Insurance Premiums and Availability

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

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National Legal Aid Secretariat
nla@legalaid.tas.gov.au | 03 6236 3813 | GPO Box 1422 Hobart TAS 7001

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About NLA and LACs

NLA represents the directors of the eight State and Territory legal aid commissions (**LACs**) in Australia. LACs are independent, statutory bodies established under respective State or Territory legislation. They are funded by State or Territory and Commonwealth governments to provide legal assistance services to the public, with a particular focus on the needs of people who are economically and/or socially disadvantaged.

Each year LACs provide in excess of 1.5 million legal services across the nation. These services are delivered from 78 offices in regions and capital cities, and by outreach including in the community, at community-based organisations, and through health justice partnerships. Services are delivered face to face, by video/phone and online. They cover all law types and include legal advice, information, dispute resolution, legal representation where necessary, and social support and referral services. LACs also have extensive community legal education programs. These programs deliver training to community service providers and seminars/classes to the public, either face to face or online, and publications online and in hard copy.

Introduction

National Legal Aid (NLA) appreciates the opportunity to provide input to the Senate Select Committee on the Impact of Climate Risk on Insurance Premiums and Availability. This submission aims to address the various terms of reference set by the Committee, drawing on the extensive experience and insights gained by Legal Aid Commissions (**LACs**) across Australia in dealing with insurance-related issues, particularly following disaster events, including bushfires, floods, severe storms, cyclones, tornadoes, and earthquakes.

LACs throughout Australia play a crucial role in providing free or low-cost legal services to individuals and communities experiencing socio-economic disadvantage. Our services extend to offering legal assistance and representation to those encountering problems with insurance claims and disputes. In the wake of disasters, the demand for our services surges as affected individuals struggle with the complexities of insurance policies and the often daunting task of navigating claims processes with insurers.

Disasters, exacerbated by climate change, have had a profound impact on the affordability and availability of insurance. Many Australians, particularly those in high-risk regions, face skyrocketing insurance premiums or the outright unavailability of coverage. These challenges are multifaceted and deeply intertwined with broader issues such as socio-economic disparities, regional vulnerabilities, and the overarching need for robust climate adaptation and resilience measures.

Through this submission, NLA aims to provide the Senate Select Committee with a comprehensive understanding of the challenges and opportunities associated with insurance in the context of escalating climate risks. We advocate for policies and measures that ensure fair, affordable, and accessible insurance for all Australians, particularly those most vulnerable to the impacts of climate change.

This submission will now address the terms of reference, providing insights and recommendations.

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

The increasing frequency and severity of climate-driven disasters have made insurance unaffordable for many Australians, particularly in disaster-prone regions. The insurances referred to are largely home and/ or contents insurances. LACs have witnessed the financial strain this places on individuals and communities, exacerbating socio-economic vulnerabilities. In New South Wales, areas such as the Northern Rivers, the Hawkesbury, and Central West locations like Eugowra have reported either excluded flood cover or no insurance at all due to prohibitively high premiums. Some insurance premiums for flood cover range from $10,000 to $60,000 per year. This issue is particularly severe for clients on fixed incomes, such as those receiving Centrelink payments, who cannot afford to insure their only asset or relocate to safer areas.

The Australian Competition and Consumer Commission's (ACCC) *Northern Australia Insurance Inquiry* (ACCC Inquiry)[1] found that insurance premiums in Northern Australia are significantly higher than in other parts of the country due to the increased risk of natural disasters such as cyclones, floods, and storms. This unaffordability stems from the frequency and severity of these events, rising claim costs and premiums. Consequently, many households and businesses struggle to afford adequate insurance coverage, leading to underinsurance or complete lack of insurance. The Climate Council reported that regions frequently hit by climate-driven disasters, like Northern Queensland and parts of New South Wales, are experiencing skyrocketing insurance premiums, with increases up to 178% over the past decade.[2] Similarly, the McKell Institute noted steep premium increases in areas prone to extreme weather events, making it difficult for insurers to provide affordable coverage, with premiums in some high-risk areas doubling or tripling over the past decade.[3]

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

In addition to affordability issues, insurance is simply unavailable to some residents in disaster-prone areas, leaving them without crucial financial protection against future disasters. This is especially common in residential land lease parks and lower socio-economic communities, where few insurance providers offer coverage, and those that do, charge exorbitant premiums. The reliance on government assistance programs, such as the NSW Back Home Grant, Disaster Recovery Grant and the Resilient Home Program, underscores the gap created by unaffordable insurance products.

The ACCC Inquiry reported that insurers are increasingly reluctant to offer coverage in high-risk areas due to the potential for substantial losses, making it financially unviable for insurers to provide policies. This leaves residents and businesses exposed to significant financial risks. The Climate Council pointed out that insurers are withdrawing from high-risk markets to avoid unsustainable

[1] Australian Competition and Consumer Commission, *Northern Australia Insurance Inquiry* (Final Report, November 2020).
[2] Climate Council, *Compound Costs: How Climate Change is Damaging Australia's Economy* (Report, 14 May 2019).
[3] The McKell Institute, *The Cost of Extreme Weather: Building Resilience in the Face of Disaster* (Report, September 2022).

losses, particularly in bushfire-prone regions of Victoria and New South Wales. Similarly, Choice's report noted that insurers are either withdrawing from certain markets or refusing to cover properties with high exposure to climate-related disasters, exacerbating financial vulnerability and displacement.[4]

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

Rising insurance premiums are driven by several factors, including increased claim costs, higher reinsurance prices, and the broader economic impact of climate change. The primary cause is the heightened risk associated with more frequent and severe climate-driven disasters. Insurers price premiums based on risk, and as the risk of disasters rises, so do the costs. This issue is compounded by the lack of transparency from insurers regarding premium components and risk mitigation steps. Consumers often face confusion and distress due to inconsistent pricing and opaque actuarial data.

The ACCC inquiry identified several causes for rising insurance premiums:

- Increased Frequency and Intensity of Disasters: More frequent and severe weather events lead to more claims and higher payouts.
- Reinsurance Costs: Insurers face higher reinsurance costs due to global natural disaster trends.
- Building Costs: Rising costs of construction and repairs inflate claim costs.

The Climate Council and McKell Institute echoed these findings, noting that higher claims, rising reinsurance costs, and increasing reconstruction costs increase the cost of premiums. These premium increases lead to widespread financial stress for homeowners and businesses, reducing the viability of living or operating in high-risk areas.

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

An emerging concern is the extent to which climate risks are factored into premiums for products not directly exposed to such risks, potentially leading to unfair cost burdens on certain policyholders. All insurance policies are, to some extent, exposed to climate change risks, leading to higher premiums across the board as insurers spread the risk to maintain financial viability or profit levels. This interconnected nature of insurance and climate risk impacts even those not in high-risk areas directly.

The Climate Council and McKell Institute found that increased climate risk is being priced into a broad range of insurance products, not just those directly exposed to climate-driven disasters. Insurers spread the risk across their *entire* portfolio to maintain financial viability, leading to higher

[4] Choice, *Weathering the Storm: Insurance in a changing climate* (Report, August 2023).

premiums for those in low-risk areas as well and higher premiums for other insurance products not usually affected by climate driven risk, such as car accident insurance. Choice's report discussed the spillover effect, where increased climate risk influences premiums for insurance products even in areas not directly exposed to climate-driven risks, ensuring overall financial stability for insurers.

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

We know from our casework experience that the increase in insurance premiums disproportionately affects lower socio-economic communities, who often live in high-risk areas due to more affordable housing, amplifying inequality and creating significant vulnerability pockets. These communities are less able to absorb higher insurance costs or invest in resilience measures. The disparity in premium costs leads to underinsurance or no insurance, exposing vulnerable populations to financial ruin during disasters.

Our casework experience is reflected in the Climate Council's report which found that low-income households and rural and remote communities are disproportionately affected by rising premiums. These groups typically have fewer resources to invest in mitigation measures, making them more vulnerable. Similarly, the McKell Institute highlighted that in some regions, insurance costs represent a substantial portion of household income, exacerbating socio-economic disparities. Choice also reported that marginalised and low-income communities, often living in higher-risk areas, are hardest hit by rising premiums, lacking financial resilience to cope with increased costs or uninsured losses.

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

Governments play a crucial role in mitigating climate risks through adaptation and resilience measures, which can help reduce insurance costs. This includes:

- Infrastructure Projects: Investing in flood defences, firebreaks, and other infrastructure to mitigate disaster risks.
- Funding and Assistance Programs: Providing grants and subsidies to help homeowners improve property resilience.
- Insurance Pooling and Subsidies: Developing initiatives like the Northern Australia Insurance Pool to spread risk and reduce premiums in high-risk areas.
- Land Use Planning: Enforcing regulations to prevent development in disaster-prone areas and supporting relocation from high-risk zones.

The ACCC, the Climate Council, the McKell Institute, and Choice emphasised the importance of government intervention in reducing insurance costs through infrastructure upgrades, stringent building codes, effective land-use planning, and enhanced community preparedness. These measures can significantly lower risks and stabilise insurance markets, making coverage more affordable and available.

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

Effective redistribution of climate risk pricing can alleviate pressure on high-risk areas and promote broader economic stability. Several strategies include:

- Insurance Pools: Establishing insurance pools to spread risk more evenly across different regions and demographics.
- Transparent Pricing: Ensuring insurers provide detailed breakdowns of premium components and risk mitigation measures.
- Government Intervention: Implementing subsidies and financial assistance programs to help high-risk areas manage premium costs.
- Community-Based Solutions: Encouraging community-level risk reduction measures and shared insurance schemes.

The ACCC, Climate Council, and Choice suggest government subsidies, reinsurance pools, community-level risk pooling, and innovative financial instruments like catastrophe bonds to distribute the financial burden of climate risks more equitably. These approaches aim to ensure that the financial impact of climate risks is shared more fairly across the economy, reducing the strain on the most vulnerable populations.

Conclusion

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

Yours sincerely,

Louise Glanville
Chair, National Legal Aid