



Insurance Council  
of Australia

# The Insurance Protection Gap: A Global Crisis

ANU Disaster Solutions Update 2024

# Australia's extreme weather affects us all

- Since 2019, insurers have paid out \$19b in claims from 20 declared Insurance Catastrophes or Significant Events.
- Flooding is the costliest extreme weather event in Australia and its impacts are only expected to get worse because of climate change.
- 2023 was the hottest year on record.
- Insurance claims from catastrophic events have exploded by nearly 50% over the past five years.
- The cost of extreme weather events are expected to grow by 5% each year and reach a total of at least \$35b annually by 2050.

## Projected annual costs by 2050:



**Cyclones**  
**\$4.4b**



**Floods**  
**\$2.3b**



**Bushfires**  
**\$2b**



## Costs are up and will continue to rise

- Extreme weather events are costing Australian homeowners around **\$4b** a year.
- By 2050, the costs of rebuilding and repairing homes, replacing contents, and displaced people are expected to exceed **\$8.7b** per year. This is a conservative estimate and more than double the current costs.



# Why are insurance premiums going up?

Wherever you live in Australia - whether you're exposed to extreme weather or not - premiums are rising because of the escalating cost of extreme weather, the growing value of our assets, inflation in the building and motor repair sectors, and insurers' increasing cost of doing business.



## Worsening extreme weather

- Natural disasters have caused more than \$34b in insurance claims since 2010, split between flooding (38%), storms and hail (34%), cyclones (18%) and bushfires (10%). The actual damage bill is much higher.



## More people in harm's way

- In Australia, around 1 in 12 properties (1.2m) have some level of flood risk. Of these, at least 230,000 are at risk of flooding every 20 years.
- 5.6m Australian homes are at risk of a bushfire.
- Australia's population continues to grow in places with greater exposure to storms, floods, bushfires and cyclones.



## Rising costs and cost of doing business

- The cost of repairing or rebuilding a home is now 27% higher than it was at the start of the COVID-19 pandemic.
- Because of Australia's worsening extreme weather, global reinsurance premiums have increased by up to 30% - that is, the insurance that insurance companies buy which enables them to share Australia's risk offshore.

## We're not alone

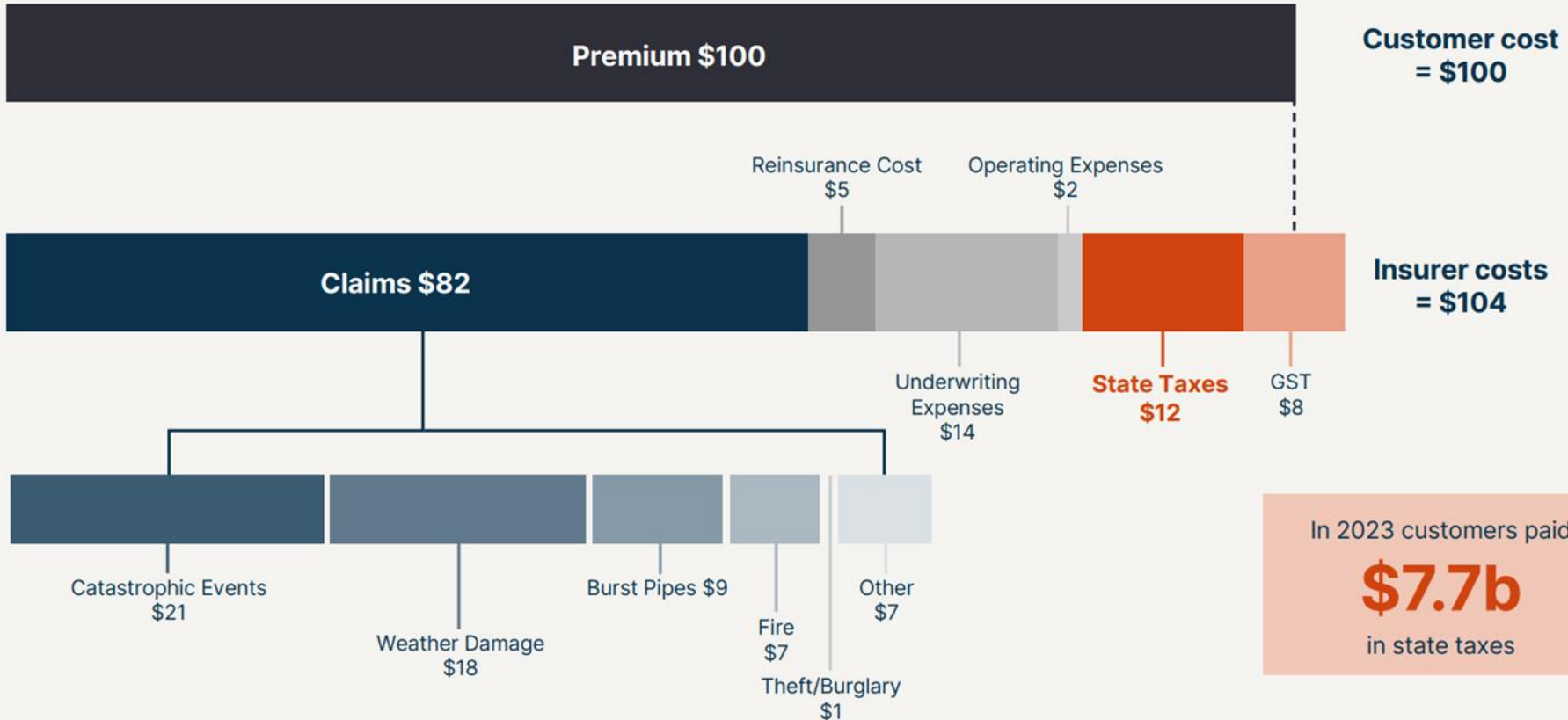
- These pressures are being felt across the globe. Global annual insured losses from natural catastrophes totalled more than **US\$100b** for 6 out of the last 7 years.
- In 2023, the US property and casualty insurance sector lost **US\$21.2b** despite a 10% growth in premiums.



## We're taking action

**Insurance is a risk calculation. To reduce the costs we need to reduce the risks.**

## Over the last 3 years insurers have lost \$4 for every \$100 paid by customers for home insurance



State stamp duties of around 10% mean **all insurance customers are taxed twice**, making insurance less affordable for all and impacting those in higher risk locations the most.

According to APRA, Australian insurers have lost more than \$650m on home insurance policies over the past four years to 2023.



# What more should we be doing?

**Insurers support the Federal Government's significant increase to resilience funding, a commitment of \$1b over five years matched by the states and territories.**

**But more can be done.**

- ✓ Make greater investment in public infrastructure that protects communities from the impacts of extreme weather.
- ✓ Invest significantly in programs that assist householders to strengthen homes against the impacts of extreme weather events.
- ✓ Change planning laws to stop home construction in high-risk locations, particularly areas at risk of flood.
- ✓ Change the construction code to make future buildings more resilient.
- ✓ Based on the successful Queensland and NSW programs, establish an ongoing program of buybacks for homes most at risk of flood.
- ✓ Remove state taxes and charges on insurance to improve insurance affordability and enable more Australians to take out adequate cover.

## What would that mitigation do?

**Save money.** Research commissioned by the ICA from Finity showed that a five-year program of resilience measures costing approximately \$2b would be expected to reduce household and government costs by more than \$19b by 2050, delivering a return on investment of almost 10x nationally.

