



The Hon Michael Sukkar MP
Assistant Minister to the Treasurer
Parliament House
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Dear Minister Sukkar

PRE-BUDGET SUBMISSION 2018-19

The Insurance Council of Australia¹ (the Insurance Council) welcomes the opportunity to provide views on the priorities for the Australian Government's 2018-19 Budget.

As argued in previous pre-Budget submissions, the Insurance Council strongly believes that Federal Budget planning would be enhanced if greater recognition were given to the benefits of funding disaster mitigation. We also advocate that funding be prioritised for improving the Australian Prudential Regulation Authority's (APRA) National Claims and Policy Database (NCPD) and updating the Australian Bureau of Statistics' (ABS) 2007 *National Survey of Mental Health and Wellbeing*. This submission sets out the reasoning underpinning our proposals.

Funding of disaster relief

The Insurance Council recognises that having an appropriate level of insurance cover is an important part of everyday life in Australia, particularly in light of the devastating impact which natural disasters can repeatedly have on many Australian communities.

The Insurance Council has consistently argued that the imbalance between the money spent on disaster response activities compared with the funding for disaster mitigation is a longstanding policy failure in Australia. Correction of this imbalance, in a manner that incentivises a systemic approach to reducing existing community exposures and preventing future planning mistakes, should be a national priority. Greater investment by the Australian Government in disaster resilience and mitigation programs would significantly help communities strengthen their ability to bounce back from natural disasters. The benefits of

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. June 2017 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$45 billion per annum and has total assets of \$124.9 billion. The industry employs approximately 60,000 people and on average pays out about \$135 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

mitigation are manifold, including improved community safety and economic stability and lower insurance premiums.

In line with the Insurance Council's support for the mitigation funding recommendations from the Productivity Commission's Inquiry on Natural Disaster Funding Arrangements, the Insurance Council endorsed the Government's response to work closely with state, territory and local governments to develop a long-term approach to achieve the right balance between mitigation and recovery funding.

Furthermore, the Insurance Council strongly supports the Government's commitment to explore the option of states using efficiencies realised following reconstruction of public assets to fund future disaster mitigation activities. However, we note the Government decided not to pursue the Productivity Commission's recommendation of an increase to federal mitigation funding in light of the concern of State Governments about the impact on their respective recovery funding budgets.

While we acknowledge the concerns of some stakeholders regarding the immediate impact of reduced recovery funding, the Insurance Council submits that mitigation is the only way to effectively reduce the need for recovery funding and put property insurance premiums on a more sustainable basis. The Productivity Commission and Northern Australia Insurance Premiums Taskforce² both reached similar conclusions. Most recently, the Senate Economics References Committee observed:

*"... in many cases the consequences of natural disasters can be mitigated. Accordingly, the committee believes that there is an urgent need for governments at the Council of Australian Governments to address investment in targeted disaster mitigation. As well as the obvious benefits mitigation provides with regard to protecting life and property, the committee agrees with industry stakeholders that increased investment in well-designed mitigation by all governments should help reduce home and strata insurance premiums over the long term."*³

Critically, the Committee recommended⁴:

*"... the Australian Government **reconsider** its response to the Productivity Commission's inquiry on National Disaster Funding Arrangements.";* and

*"... that, as a matter of urgency, the Australian Government work with states and territories through the Council of Australian Governments to **reform** national disaster funding arrangements."*

² Productivity Commission, *Natural Disaster Funding Arrangements – Inquiry Report*, December 2014. Northern Australia Insurance Premiums Taskforce [Final Report](#), March 2016.

³ Final [Report](#) of the Senate Economic References Committee Inquiry into Australia's general insurance industry. 10 August 2017. Page 73.

⁴ Op. cit. Page xi.

As a practical example of the importance of disaster mitigation, the Bushfire and Natural Hazards CRC recently assessed the costs and benefits of flood mitigation in Launceston. In June 2016, Launceston experienced severe flooding but with the upgrading of levee system, the CRC estimated that losses of about \$216 million were avoided, "...which was approximately four times the total investment."⁵

The Insurance Council believes the 2018-19 Budget should prioritise disaster mitigation funding in order to reduce the Australian community's exposure to natural disasters. This in turn would lessen the need for disaster response activities. In order to address concerns about the impact of immediate reductions in recovery funding, the Australian Government should reduce gradually the relief and recovery funding it provides to state and territory governments, while it increases annual expenditure on mitigation measures to \$200 million. This could be distributed to the states and territories on a per capita basis as recommended by the Productivity Commission².

To ensure that care is taken in identifying and selecting mitigation projects, increased mitigation funding should be conditional on matched funding contributions from the states and territories and implementation of best practice institutional and governance arrangements.

As a means of facilitating a better recognition of the benefits of mitigation measures, the Insurance Council strongly supports the Australian Government publishing estimates for the future costs of natural disasters in the Budget's Statement of Risks. We also submit that the natural disaster recovery budget should be informed by catastrophe modelling, rather than the simple historical average of costs (as currently used in NSW).

Funding for improving the NCPD

The Insurance Council proposes that the 2018-19 Budget should prioritise funding for APRA to improve the NCPD's statistics on professional indemnity and public and product liability insurance. The NCPD is a highly credible source of data on those insurance lines and, with close to fifteen years of available data, provides its diverse range of users a broad spectrum of benefits, particularly insights into market trends.

APRA's stated aims for the NCPD are to: provide insurers, the community and State and Federal governments with a better understanding of public and product liability insurance and professional indemnity insurance; and help make these products more affordable and available by providing insurers with detailed information to help them assess risks and determine appropriate premiums for these insurance products.

However, as we have suggested to APRA, a variety of improvements could be made to the NCPD which would significantly enhance its usefulness. For instance, refinements to the classification of published NCPD occupation groups could be implemented, which would provide an enhanced level of data granularity that aligns better with industry's data requirements. This would provide increased access to more granular NCPD data that APRA already collects from regulated insurers.

⁵ Bushfire and Natural Hazards Cooperative Research Centre, Costs and benefits of flood mitigation in Launceston, Issue 40. 4 October 2017. Page 1.

Such improvements to the NCPD would enable industry observers to conduct more informed analysis on liability and indemnity insurance lines, while governments would be able to base policy decisions on a broader range of data that more accurately reflects the state of the insurance markets. Indeed, improved NCPD data would also help enhance insurers' ability to assess risk and price indemnity and liability insurance products with greater precision.

Given the substantial resources that industry collectively spends on submitting data to APRA specifically for the NCPD, it should be the goal of all stakeholders to ensure that this database achieves maximum public benefit. Our understanding is that any proposed changes to the NCPD would require public consultation and additional resourcing for APRA.

Funding an update to the National Survey of Mental Health and Wellbeing

The Insurance Council recognises the important role the general insurance industry can play in facilitating financially inclusive outcomes; it has made valuable contributions through product innovations for vulnerable communities, such as older Australians and those on lower incomes.

There has been an increasing demand for the coverage of general insurance products to be expanded for people suffering from a mental health condition in recent years. Many features of a travel insurance policy are widely available for people with a mental health condition. However, policies will typically not provide them cover for financial losses related to their condition. General insurance policies are risk-based products, and insurers' access to sophisticated data is critical to their ability to assess and price risk that is specific to an individual.

One of the key challenges that insurers face is having the appropriate data at hand to quantify the risks associated with mental health conditions. The industry currently has access to public sector statistical data on mental health, the key publication being the National Survey of Mental Health and Wellbeing conducted by the ABS in 2007. This estimated that 45 per cent of people will suffer from a mental health condition in their lifetime.

While the number of public sector datasets regarding mental health is considerable, much of the data is not adequate for insurance underwriting. In order to create the right conditions for improved access to general insurance for those with a mental illness, more granular, up-to-date data is essential to accurately assess the risk of providing cover for mental illness related claims.

As a first step, the Insurance Council urges that the Australian Government prioritises updating nationwide mental health data, by directing the ABS to update the 2007 National Survey of Mental Health and Wellbeing (the survey) immediately. This survey is the most comprehensive national publication capturing mental health data. The National Survey of Mental Health and Wellbeing was first conducted in 1997 and the 2007 update followed to provide relevance for the next decade.

Over another decade has passed since the last publishing and it would be prudent for the Government to include expenditure to renew the survey in the 2018-19 budget. At a time when reported incidence of mental illness and the number of Australians affected by mental health continues to increase, this is an important public health concern which requires more up to date information. Conducting the survey would contribute to the public's

understanding of mental health issues and provide a quantifiable basis of the impact of mental health conditions for government policy making.

This would be consistent with the Australian Government's objective to further develop the evidence base on mental health conditions, as stated in its response to the National Mental Health Commission's review of mental health programme and services. The Insurance Council estimates that the cost to update the survey and conduct follow-up analysis is relatively modest at \$17-18 million.

If you have any questions or comments in relation to our feedback, please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate, on tel: (02) 9253 5121 or email: janning@insurancecouncil.com.au.

Yours sincerely



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