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Senate Standing Committees on Economics
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4 March 2022

Submission to Senate Standing Committee on Economics Inquiry into Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022.

Dear Committee

The Australia Institute welcomes the opportunity to make a submission on the Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022.

The Australia Institute agrees that there is a clear need for Government action for the reasons explained in the Explanatory Memorandum:

> Without action, increasing levels of underinsurance and non-insurance may lead to decreased resilience to natural disasters and a deterioration in households' ability to financially recover from disasters. This in turn can increase costs to governments through increased pressure on health, emergency services, and welfare systems. It may also jeopardise progress made towards the economic development, and the improved liveability and prosperity, of northern Australia (P.33)

However, the bill is inadequate in addressing the problem of resilience to natural disasters and households' capacity for disaster recovery, by addressing only a small part of this challenge.

This is demonstrated clearly by the fact the bill as proposed would not cover the current flooding in NSW and Queensland because it only applies to "declared cyclone events".

The bill assumes that the availability and affordability of insurance in high-risk cyclone areas can be addressed by lowering the cost of reinsurance. It also assumes that the reduced cost of reinsurance for insurance companies will be passed onto insurance customers in the form of lower premiums. It provides no guarantee that insurers will pass on reduced insurance costs to households and simply shifts the risk from insurers to taxpayers.

The bill also does not address the availability of insurance policies to potential buyers. Despite the intention of the bill to lower the cost of providers making insurance available in high-risk cyclone areas, this does not guarantee that providers will make insurance policies available where they were not previously. It is possible that underinsurance and non-insurance remain a challenge for vulnerable areas.

Encourages Maladaptation

If the bill does result in lower insurance premiums for insurance buyers, it will exacerbate the problem by encouraging people to live in disaster prone areas, almost inevitably leading to more property damage, injuries and fatalities. Should the bill be passed, it should be accompanied by a review of relevant planning laws that allow new development in areas that are already vulnerable, or are likely to become vulnerable in the future, to climate impacts such as cyclones.

The US experience with the National Flood Insurance Program which is noted in the explanatory memorandum as having borrowed $US39.4 billion from the US Government to pay out claims since 2004, has been criticised for both failing to reduce insurance premiums and encouraging people to live in disaster prone areas.[1] While it is a different proposal to the reinsurance pool, it would have the same effect in terms of providing an incentive for maladaptation.

It would be far better for the Government to fund adaptation planning and implementation for established residents in increasingly dangerous areas than encourage them to remain by offering lower premiums. The Australia Institute's preferred solution, a Climate Disaster Levy on fossil fuel exports, discussed below would enable this.

Not cost neutral

The Explanatory Memorandum presents the measure as "cost neutral." The scheme proposes the ARPC charging premiums only to cover expected administration and claims costs. However, this is only the case if the insured costs don't exceed the premiums over time, and if the scheme was genuinely cost neutral there would be no need for a government guarantee. The Government is essentially shifting the risk and consequent costs from insurers to Australian taxpayers - Australian households and businesses.

Insurance is a Band-Aid solution – improved climate change adaptation policies required

The Government makes no mention of climate change, the main cause of increasing natural disasters and the associated recovery costs that cause rising insurance premiums, underinsurance, and the unavailability of insurance.

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[1] Walsh (2017) A Broke, and Broken, Flood Insurance Program, https://www.nytimes.com/2017/11/04/business/a-broke-and-broken-flood-insurance-program.html

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The Australian Bureau of Meteorology (BoM) has found that climate change had already uncreased the frequency of pacific rainfall disruptions (which include floods and drought in eastern Australia) by 30 percent in 2017, which is projected increase to 90 percent early this century and 130 percent later this century.[2] Scientific studies have attributed previous Queensland floods in 2011 to climate change.[3]

In 2017 Deloitte Access Economics estimated the total cost of natural disasters in Australia was $18 billion and projected to rise to $38 billion by 2050. They now estimate the current annual cost to be $38 billion, and project a rise to $94 billion annually by 2060 if we remain on our current high emissions path.

If the Australian Government is committing Australian taxpayers to underwrite the increasing risk of climate related disasters in Australia, then it should undertake detailed analysis of the risk. However, Australia's National Recovery and Resilience Agency (NRRA) does not even mention 'climate change' in its 26-page strategic direction and the National Climate Resilience and Adaptation Strategy (NCRAS). Unlike the most countries we do not have a national adaptation plan nor carried out a national climate risk assessment – despite these documents being prescribed by the United Nations Framework Convention on Climate Change.

Inequitable subsidy of disaster recovery

The proposed reinsurance pool uses public funds to underwrite the increase in risk of climate change-induced cyclone related disasters.

However, the risk of natural disasters is increasing in all parts of Australia. This was made abundantly clear by the unprecedented Black Summer bushfires but is also true of flooding not caused by cyclones (that are currently being experienced and would not be covered by this bill), heatwaves, drought and coastal inundation.

It is deeply inequitable to subsidise insurance premiums for one region (Northern Australia) for one type of disaster (cyclone related flooding).

Committee member, the Hon Warren Entsch MP, has suggested the scheme be expanded to all types of disasters. While the Australia Institute agrees that we need solutions that cover all Australians for all natural disasters, we do not agree Australian taxpayers should take on the increasing risk of climate related disasters.

The Australia Institute will shortly publish analysis of the likely cost to Australian taxpayers of expanding the reinsurance pool to all disasters.

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[2] BOM (2017) Droughts and flooding rains already more likely as climate change plays havoc with Pacific weather, http://www.bom.gov.au/climate/updates/articles/a023.shtml

[3] Timms (2015) *Warm ocean temperatures worsened Queensland's 2011 floods, study shows*, https://www.abc.net.au/news/2015-12-01/warmer-ocean-temperatures-worsened-queenslands-2011-flood-study/6989846

National Climate Disaster Levy on fossil fuel exports

An alternative solution is for companies whose activities are fuelling the increased frequency and severity of these disasters to pay for the damage they are causing through a National Climate Disaster Levy on fossil fuel exports.

It is a fundamental principal of economics that companies pay the cost of damage they cause. It is serious market failure that ordinary Australians pay the increasing costs of climate disasters through higher insurance premiums or spending of public money.

Fossil fuel emissions are the primary cause of climate change, yet the mostly foreign owned coal, oil and gas producers operating in Australia make little, if any, contribution to the cost of climate related disasters. Most also pay little, if any, tax in Australia. A recent Australia Institute report showed two thirds of Western Australia's gas is being given away to major gas companies without any royalties or resource rent tax being paid.[4]

Most of these companies pay no corporate tax either. Last year the list of companies paying zero company tax in Australia included oil and gas companies Shell, Chevron, Santos, ExxonMobil and Origin, and coal companies Whitehaven, Peabody, Yancoal.

There is a simple way to fix this. The Australia Institute has proposed a levy on coal and gas exports to be paid into a National Climate Disaster Fund. Every dollar of that fund would go directly to paying the costs of climate related disasters that are ultimately being caused by the emissions from those very exports. Because it is on exported fossil fuels it will have no effect on energy prices in Australia and will fund recovery and resilience jobs across the economy.

If these companies do not pay the costs of the climate chaos they are causing, the rest of us will.

Ultimate measures to subsidise insurance are simply shifting the risk and costs of climate disaster from insurance companies and some policy holders to taxpayers, who are primarily Australian households and businesses.

A climate disaster levy is a far fairer and more economically responsible measure, ensuring that fossil fuel producers pay some of the costs of their externalities, rather than ordinary Australian households.

[4] Carter (2022) Gas-fired robbery: Assessing the economic contribution of LNG to Western Australia, https://australiainstitute.org.au/report/gas-fired-robbery/

The Australia Institute
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The Australia Institute is undertaking further work that could assist the Committee, with analysis examining:

1. The likely cost of expanding the reinsurance bill to all types of disasters in Australia
2. The cost to Australian households of various levels of insurance premium increases that could flow form the current floods in Queensland and NSW

The Australia Institute would welcome an opportunity to share further views and will share the further analysis in due course.