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National Commission of Audit

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NRMA Insurance – Who we are

As the leading insurer in New South Wales, NRMA Insurance represents the largest division of the Insurance Australia Group. We are responsible for developing, underwriting, selling and managing claims for personal insurance products that are sold directly to customers. Our products include comprehensive motor insurance, home and contents insurance, CTP, home security, and business insurance. We also offer lifestyle and leisure insurance products including veteran, vintage and classic car, boat, caravan and travel. We operate in New South Wales, Queensland, the Australian Capital Territory and Tasmania, along with Western Australia (SGIO) and South Australia (SGIC). We have over three million customers and insure approximately 1.2 million homes and 3 million vehicles.

NRMA Insurance welcomes the opportunity to make a submission to the National Commission of Audit. This submission addresses the Terms of Reference relating to the efficiency and effectiveness of government expenditure. We believe a co-ordinated and collaborative approach is needed on a national level to effectively manage the risk – including the cost to the Australian Government and national economy - associated with extreme weather events. The economic cost of natural perils in Australia has increased substantially over the past eight few years. The insured losses associated with these events are clearly increasing as a consequence of increases in population, increasing building costs and construction of buildings that are not resilient to natural hazards. We believe the primary role of government in this area is to reduce community vulnerability to extreme weather events with a policy framework that promotes stronger building codes, risk appropriate land use planning and preventative infrastructure investment.

Cost of disasters

The natural disasters of the past five years in Australia have caused billions of dollars of damage to private property and public infrastructure. The Australian Government has



provided funding under the Natural Disaster Relief and Recovery Arrangements (NDRRA) of over \$1.8 million between 2012 and 2013 and over \$166 million in Australian Government disaster recovery payments (AGDRP) in 2013 alone. The Australian and Queensland Governments have incurred over \$7.5 billion in reconstruction and recovery costs related to the 2010-11 Queensland floods and Cyclone Yasi¹. Insurers paid out more than \$3.7 billion to policyholders for the same events. Even before the events of the last five years Australia's annual average insured losses due to natural perils was estimated at around \$1 billion.²

The Australian Business Roundtable for Disaster Resilience and Safer Communities, of which IAG is a founding member, estimated that the annual total economic cost of natural disasters in Australia is expected to double by 2030 and reach \$23 billion in real terms by 2050 from around \$6 billion in 2012. Each year an estimated \$560 million is spent on post disaster relief and recovery by the Australian Government compared with an estimated consistent annual expenditure of \$50 million on pre-disaster resilience: a ratio of more than \$10 post-disaster for every \$1 spent pre-disaster. Historical data indicates that the Australian and state governments collectively face around 11% of the total economic costs of natural disasters. It is estimated that 80% of this government expenditure is outlaid by the Australian Government.³

Public Review of Disaster Prevention and Recovery Funding Arrangements

NRMA Insurance supports the recommendations of the final Productivity Commission Report on Barriers to Effective Climate Change Adaptation, including a public review of disaster prevention and recovery arrangements. The Commission's report recognises there is a shared role between Government, business and households in reducing the impact of climate change and extreme weather events. This can only be achieved through long-term economic and political investment in building community resilience. The existing funding arrangements do not offer sufficient incentives for State Governments and communities to rebuild in a more disaster resilient way. We urge the Government to undertake a thorough public review of existing arrangements.

In February 2013 the Federal Government pledged to invest \$100 million over two years to reduce flood risk and bring about real reductions in insurance premiums. The National Insurance Affordability Initiative committed to invest \$50 million a year in targeted flood and other natural disaster mitigation measures, as well as establish a National Insurance

¹ Queensland Reconstruction Authority Strategic Plan 2012 <http://www.qldreconstruction.org.au/u/lib/cms2/strategic-plan-2012.pdf>

² Ryan Crompton and John McAnaney; The Australian Journal of Emergency Management, Vol. 23 No. 4, November 2008

³ Building our nation's resilience to natural disasters, Australian Business Roundtable for Disaster Resilience and Safer Communities, June 2013



Affordability Council. NRMA Insurance and CGU would like to see these funds retained for investment in mitigation.

Disaster Recovery Payments

We note that since December 2010 the Federal Government has spent over \$800 million on post-disaster recovery payments to individuals including the Australian Government Disaster Recovery Payment (AGDRP). In contrast the 2012-13 Federal Budget allocated only \$26 million to disaster mitigation under the NPA for the 2012-13 financial year with no increase in the forward estimates. The eligibility criteria for the AGDRP are broad and not sufficiently targeted. The payments overlap with personal hardship grants and other support jointly funded by the States and Commonwealth under the NDRRA. Further, the payment cannot, and is not intended to, compensate those who have been most severely impacted by a disaster. Given these factors, it is arguable this funding could be better directed to pre-disaster mitigation initiatives that reduce the risk of damage to individual households and improve the resilience of those most at risk.

Investment in Natural Perils Mitigation

There is a need for greater emphasis by governments, and in particular the Australian Government, on community adaptation to extreme weather events, including stronger building codes to protect structures from extreme weather hazards; - tropical cyclones, severe storms, hailstorms, bushfires and flood - more risk-appropriate use of land and greater emphasis on hazard mitigation infrastructure.

While the insurance industry is well placed to continue to play a leading role in encouraging action on adaptation, to make our communities stronger and better able to withstand catastrophes, there needs to be a focus on increasing the level of investment in disaster mitigation and resilience strategies. For example, the \$27 million per annum allocated for mitigation works under the National Partnership Agreement on Natural Disaster Resilience (the NPA) in the 2013-2014 budget is inadequate when considering the cost of flood mitigation works such as the Launceston Flood Levee Scheme in Tasmania (approximately \$57 million) and the Carnarvon Flood Mitigation Works (approximately \$55 million).

Additional funding is needed to allow additional protective works including barrages for unusual tides, levee banks, sea walls, properly maintained fire breaks and access trails, improved drainage and dams. Infrastructure investment has the double advantage of being a down-payment for future resilience and an economic generator.

Australian Government spending on mitigation initiatives represents around only 3% of what it spends on post-disaster recovery and reconstruction.



FY	Mitigation and resilience*	Recovery and reconstruction**
09/10	\$21.6M	\$402M
10/11	\$25.2M	\$997M
11/12	\$25.7M	\$3.8B
12/13	\$26.1M	\$451.3M
13/14	\$21.6M	\$1.94B
14/15	\$21.6M	\$1.16B
15/16	\$21.6M	n/a

**Funding provided to States and Territories for disaster resilience initiatives under the National Partnership for Natural Disaster Resilience*

***Funding provided to States and Territories for recovery and reconstruction under the Natural Disaster Relief and Recovery Arrangements.*

All levels of government – led by the Australian Government – must place greater emphasis on building community resilience to extreme weather events and significantly boost their investment in natural hazard mitigation infrastructure that will protect assets like homes and businesses, and lower the cost of risk.

Research by Dr Richard Tooth (2011), *“Flood Insurance: economics and issues”*, Sapere Research Group commissioned by IAG highlighted *“Economic studies of flood mitigation activities have generally found that flood mitigation is efficient with substantial benefits”. Of note:”*

“There is also some international evidence on the value of flood mitigation activities. Of note, Kunreuther (2008) estimates that structural modifications to properties would save over 50 per cent of unmitigated losses in Florida. Rose et al. (2007) examined the benefit-cost analysis of a sample of Federal Emergency Management Agency (FEMA) hazard mitigation grants across a range of hazard areas. The found that in the flood mitigation cases sampled (around 8% of flood related grants) that benefits exceeded costs and the average benefitcost ratio was over 5:1.” (p.12)

The NPA is a partnership with states and territories where jurisdictions provide direct administration of the funding and submit an annual implementation plan to the Attorney-General. For the most part funding is then allocated by each jurisdiction via competitive grants programs. This means there is very little, if any, capacity for this funding to be directed toward larger scale disaster mitigation infrastructure projects of local, state or national significance. Further it is arguable that this arrangement encourages a piece-meal approach to disaster mitigation rather than one that focuses on long-term, strategic priorities.



As the Draft Report notes, local governments can access other sources of funding (such as the Regional Development Australia Fund) that could potentially be used for disaster mitigation infrastructure. Yet these programs are not specifically designed to promote disaster resilience and adaptation meaning mitigation projects do not frequently receive funding. While IAG maintains that disaster mitigation funding needs to be increased the framework for distributing these funds must encourage strategic investment in priority mitigation infrastructure projects.

Likewise, an independent, public review of the NDRRA is warranted to assess whether the current arrangements are financially sustainable and meet the needs of Australia's disaster risk profile in light of likely increased climate volatility. In their current form the NDRRA are not explicitly linked to the National Strategy for Disaster Resilience adopted by COAG in February 2011. The NDRRA's betterment provisions, which seek to encourage disaster resilience in rebuilding or replacing disaster damaged public infrastructure, are poorly understood and rarely used. Consequently, it is arguable the NDRRA do not offer sufficient incentives for communities to rebuild in a more disaster resilient way or consider alternatives to rebuilding. The Federal Government has used Category D of the NDRRA to fund new disaster mitigation or resilience building projects that would not otherwise fall within the remit of the scheme. This includes \$10 million for flood mitigation works in Toowoomba and up to \$18 million to assist in the relocation of Grantham to higher ground. While we believe these are positive initiatives we are concerned that disaster mitigation funding is not being prioritised on a national basis according to transparent, consistent and coherent criteria.

NRMA Insurance would be happy to discuss this submission and to assist in any way we can. If you wish to discuss this matter or make further inquiries please contact [REDACTED] [REDACTED] Senior Adviser, Government and Policy on [REDACTED] [REDACTED] [REDACTED] or email [REDACTED]

Yours sincerely

[REDACTED]
Head of Government Relations
NRMA Insurance