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Select Committee  
Impact of Climate Risk on Insurance Premiums and Availability  
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## Impact of Climate Risk on Insurance Premiums and Availability

The Select Committee on the impact of Climate Risk on Insurance Premiums and Availability is inquiring into the unaffordability and unavailability of insurance due to climate-driven disasters<sup>1</sup>. AFCA<sup>2</sup> welcomes the opportunity to provide a brief submission in response to this inquiry.

General insurance plays a critical role in safeguarding some of the most important assets and activities of Australian consumers and small businesses. The combined impacts of climate change, frequency of catastrophic weather events and higher premiums means general insurance products are increasingly out of reach for many consumers, small businesses and communities.

This inquiry presents an opportunity to understand the drivers of these increases and explore interventions that may put downward pressure on premiums to help deliver inclusive and sustainable insurance outcomes.

AFCA is the external dispute resolution (EDR) scheme authorised under the Corporations Act, 2001 (Corporations Act) to deal with consumer complaints about financial products and services. This includes complaints from consumers about general insurance products and services.

In the past year, AFCA has made three detailed public submission into inquiries / reviews relating to the general insurance market, as linked in the following table.<sup>3</sup> AFCA's public submissions touch on many relevant issues to this Inquiry and we encourage the Committee to have regard to specific sections of these submissions.

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<sup>1</sup> The Committee's Terms of Reference point to the unaffordability and unavailability of insurance due to climate-driven disasters being greater in 'some regions' and for 'some people'.

<sup>2</sup> For comprehensive information about AFCA, see our website [www.afca.org.au](http://www.afca.org.au)

<sup>3</sup> AFCA's published submissions are uploaded on our website <https://www.afca.org.au/about-afca/submissions>

Year	AFCA submission	Relevant section
2023	<a href="#">AFCA's submission to the House of Representatives Standing Committee on Economics inquiry into insurers' responses to 2022 major floods claims</a>	AFCA refers the Committee to our <a href="#">Key Observations</a> (pg. 5) and comments on <a href="#">Affordability of insurance cover and related Case Study</a> (pg. 33-34),
2024	<a href="#">AFCA's submission to the Treasury Consultation Paper - Standardising natural hazard definitions and reviewing standard cover for insurance</a>	AFCA refers the Committee to our comments on <a href="#">how standardisation of definitions may impact on costs, claims handling and IDR/EDR</a> (pg. 2-5).
2024	<a href="#">AFCA's submission to the Independent Review of the 2020 General Insurance Code of Practice (GI Code)</a>	AFCA refers the Committee to our comments on <a href="#">affordability, helping to reduce risk and standard terms</a> (pg. 20-21).

We make this submission to:

- help inform the committee about the issues we observe in the approximately 27,000 general insurance complaints we deal with each year<sup>4</sup> that may impact on insurance premiums; and
- highlight potential initiatives that may put downward pressure on insurance costs and improve consumer outcomes.

### AFCA's jurisdiction to deal with insurance premium related complaints

AFCA can only consider consumer and small business complaints that fall within our jurisdiction, as set out in the [AFCA scheme Rules](#) [see Rule C 1.4]. For general insurance complaints, AFCA:

- cannot consider a complaint about premiums merely because a consumer is dissatisfied that the premium has increased or is unhappy about the amount of the increase
- cannot consider insurer decisions about premiums (including premium increases), whether insurance premiums are affordable, or how the policy compares to others on the market – as they are commercial decisions for the insurer.

AFCA can consider general insurance complaints that may involve pricing issues in circumstances where the complaint relates to disclosure (i.e. the cost was not

<sup>4</sup> AFCA received 27,924 General Insurance complaints between 1 July 2022 and 30 June 2023 ([AFCA 22/23 Annual Review](#))

appropriately disclosed), the premium was misrepresented or incorrectly applied, or a complainant believes there has been a breach of another legal obligation by the insurer.

For example, where the complaint relates to the firm's disclosure of information about premiums, we can consider:

- what the firm said about premiums and premium increases in the policy documents when the policy started, and in annual statements or renewal notices, and
- how much notice was given about premium increases.

We publish an insurance premium fact sheet on our website to answer some common questions we receive about insurance premium increases and our jurisdiction. The fact sheet covers both general and life insurance complaints.<sup>5</sup>

### Insurance Premium increases and Risk Mitigation

Insurance premiums rose 16.3 percent in the year to November 2023, marking the fastest rate of any consumer spending category. The Australian Bureau of Statistics attributes this overall increase to higher reinsurance and natural disaster costs, which have driven up premiums for house, home contents, and motor vehicle insurance.<sup>6</sup>

In line with these observations, the Insurance Council of Australia (ICA) says that 'as the risk of extreme weather worsens, insurance can become increasingly costly for those in flood, bushfire-prone or cyclone-prone locations.'<sup>7</sup> This suggests that aggregate premium increases likely conceal the scale of the increases in higher-risk areas.

Global risk estimates state that nearly 521,000 Australian homes are predicted to be uninsurable by 2030 due to the risks of extreme weather.<sup>8</sup>

Risk mitigation in the context of climate change describes a suite of measures from public policy settings and interventions about land-use and flood mapping, for example, through to the adoption of certifiable standards to make a home more resilient to a specific disaster risk.

The ICA says that risk mitigation actions '*can be taken into account by insurers when setting your premium*', and that some insurers offer formal programs that recognise specific mitigation measures.<sup>9</sup> However, approaches to risk mitigation are neither standardised nor comprehensive across the industry.

<sup>5</sup> <https://www.afca.org.au/about-afca/publications/factsheet-insurance-premium-increases>

<sup>6</sup> [ABS Monthly Consumer Price Index Indicator \(Nov 23\)](#)

<sup>7</sup> <https://insurancecouncil.com.au/affordability/>

<sup>8</sup> *World Economic Forum Global Risks Report* - 10 January 2024

<sup>9</sup> [Reduce your risk - Insurance Council of Australia](#)

AFCA considers that risk mitigation is an efficient and effective way to help address insurance affordability issues. However, such initiatives need to be supported by clear referable standards to guide consumers about the types of measures other customers confronting similar risks have undertaken and clear disclosure about any premium reductions that may follow.

In AFCA's submission to the Independent Review of the General Insurance Code of Practice, we supported the introduction of code commitments that require insurers to respond via premium reductions to consumers' risk-mitigation efforts, where appropriate.<sup>10</sup>

AFCA also notes the Government is establishing the Insurance Affordability and Natural Hazards Risk Reduction Taskforce (Taskforce). The Taskforce will look to coordinate a whole of economy view of issues impacting insurance affordability and solutions to reduce risk from natural hazards<sup>11</sup>.

We support the Taskforce's work and endorse the need for industry-wide initiatives including:

- more appropriate product design and innovation that may result in products that are more tailored to different risks and responsive to different consumer needs
- consistent standards and disclosures to enable consumers to effectively benefit (with reduced premiums) from their risk-mitigation efforts.

### Standardising natural hazard definitions

In April 2024 AFCA made a submission to the Treasury consultation paper *Standardising natural hazard definitions and reviewing standard cover for insurance*.<sup>12</sup> In the submission, AFCA supported proposals standardising definitions of the terms 'fire', 'storm' and 'stormwater and rainwater run-off'.

Based on our complaint resolution experience, we believe that standardisation of those definitions could provide important benefits, including:

- making it easier for consumers to compare policies
- simplifying disclosure and claims handling for insurers
- reducing the number of complaints made to insurers at internal dispute resolution (IDR), which could also reduce the number of complaints referred to AFCA
- reducing the complexity of complaint resolution and decision making for AFCA.

The standardisation of definitions could make certain steps in the claims and complaints handling processes simpler and reduce insurer costs, which could be passed onto consumers in reduced premiums. Reliance on standard definitions may

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<sup>10</sup> [AFCA submission - Review of the General Insurance Code of Practice \(Pg. 21\)](#)

<sup>11</sup> [Insurance Affordability and Natural Hazards Risk Reduction Taskforce | Treasury Ministers](#)

<sup>12</sup> [AFCA Submission - Standardising natural hazard definitions and reviewing standard cover for insurance](#)

make it easier for insurers to instruct 3<sup>rd</sup> party experts and improve the reliability and consistency of their reports. This may then support more efficient claims and complaints handling both at IDR and at AFCA.

### Getting the basics right

AFCA recognises the various inputs to premium pricing including back-end climate risk modelling and other factors including commercial considerations for insurers. However, too often we see insurers fail to get the basics right. This includes insurers’:

- ineffective customer communications
- not designing products or having processes in place that are responsive to customer needs.

### Customer communications

We see insurers failing to provide sufficient information to explain to their customers the rationale for the premium (or any significant increase). This limits consumers’ ability to take proactive steps (including action to mitigate risks) to reduce the premium or to seek alternate cover from an insurer that factors in their risk mitigation efforts, when setting the premium.

We receive complaints resulting from poor quality insurer information about why premiums are increasing. In some complaints, AFCA has found it difficult to get the insurer to explain the basis for the premium increase in a way that is meaningful for the consumer (and AFCA decision makers). For example, if an increase is due to the property being in a ‘flood zone’, a consumer may be able to produce evidence to legitimately dispute this designation. However, if insurers fail to provide a meaningful explanation behind the increase, the consumer lacks a basis to challenge it.

In AFCA’s view, insurers can and should do better in how they communicate about the basis for premium increases. This is not a call for exhaustive explanations, rather the provision of sufficient (accurate, timely and specific) information for a consumer to understand the factors that led to the increase and how those factors may have changed at renewal.

The General Insurance Code of Practice (GI Code) is currently under Review and the Review Panel are considering issues of affordability. Current code commitments (see paragraph 50) refer to premium calculations in vague terms and offer limited utility to consumers seeking to rely on it.

### Product and process design that is responsive to customer needs

AFCA supports initiatives to simplify and clarify key features of insurance products. Simplification and clarification can also help insurers and their agent experts to

process claims, manage complaints and communicate with their customers in a more efficient, fair, consistent and timely way.<sup>13</sup>

We also consider that there are opportunities to explore innovative solutions to create a more equitable and accessible insurance landscape, improving financial security for all consumers. For example, offering insurance premium discounts for annual payments can disadvantage lower-income consumers who lack the financial flexibility to pay a lump sum. Higher costs for monthly payments disproportionately affect these customers, imposing an increased financial burden on those least able to bear it and increases the risk of default and lapses in coverage.

Higher monthly premiums may deter consumers from purchasing and maintaining their insurance cover or reducing their level of insurance, amplifying vulnerability.

There is an opportunity for insurers to consider equitable premium costs across different payment frequencies alongside flexible payment plans tailored to individual financial situations (such as bi-monthly or quarterly payments, or access to Centrepay to assist consumers to smooth premium payments over time<sup>14</sup>).

We also endorse consideration of options to better support customers who may be at risk of losing insurance cover in circumstances of financial hardship. We consider that improvements in these areas will help make insurance more sustainable for these customers and help reduce complaints.

### **Affordability – Loyalty tax**

While insurance cost increases can prompt consumers to shop around, some insurance customers may stick with the same insurer—often for many decades—simply accepting the policy terms and premium on offer at renewal each year. This results in the most loyal customers often paying significantly higher premiums than new customers (a ‘loyalty tax’).

In the Australian context, there is a lack of transparency about:

- the premium paid by loyal customers relative to other customers insuring the same or similar risks, and
- whether customer stickiness may also be highest amongst older or more vulnerable customer cohorts.

In other jurisdictions, regulators have intervened to respond to this issue by introducing pricing, auto-renewal and data reporting remedies.<sup>15</sup> We consider this issue is inextricably linked to poor levels of communication by insurers. Tackling this issue must form part of the solution – namely, reduce complexity, increase the ability

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<sup>13</sup> [AFCA submission - Standardising natural Hazard definitions and reviewing standard cover for insurance \(April 2024\)](#)

<sup>14</sup> Through Centrepay - insurance premiums are allowable deductions and fall under its category of ‘Financial Products’.

<sup>15</sup> [FCA confirms measures to protect customers from the loyalty penalty in home and motor insurance markets](#)

to compare like for like insurance policies and subsequently increase 'real' competition – putting downward pressure on premium increases.

### Service levels

Significant increases in fees and premiums by insurers have not led to wholesale improvements in service levels. On the contrary, over the past two years AFCA has routinely engaged with the insurance industry about poor levels of service and highlighted the need for improvements on their fundamental obligations.

This includes:

- handling claims in a timelier way
- keeping consumers informed of what stage a claim is at
- streamlining requests for information
- addressing service complaints with a customer centric approach and in a timelier way, and
- explaining claim decisions, insurance premium increases (including risks) in clearer terms.

These are core activities and if done well, have the ability to:

- reduce customer service calls
- reduce IDR and EDR complaints
- reduce time to consider claims, and ultimately,
- reduce operational costs that are imposed on customers.

### Systemic Issues

As well as handling complaints, AFCA plays a role in the broader consumer protection framework by identifying and investigating systemic issues (SIs) and reporting them to ASIC and other relevant regulators. This role extends to sharing information and insights gained through SI work with the financial services industry to help improve practice and reduce complaints.

Our SI role is explained fully on our website and summarised in our publications.<sup>16</sup>

#### General Insurance systemic issues

In 2022-23 AFCA identified 17 definite SIs relating to general insurance. In quarters 1 and 2 of financial year 2023–24, AFCA resolved six definite SIs relating to general insurance. Common issues identified by AFCA and further investigated to determine whether they represented an SI (including in response to the 2022 major floods) were:

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<sup>16</sup> See the [Operational Guidelines](#) to Rule A.17 of the AFCA Rules and pages 115 to 118 of our 2022-23 [Annual Review](#). Also see our [fact sheet Systemic issues, serious contraventions and other breaches](#).

- insurers failing to provide IDR responses to complaints in accordance with ASIC's Regulatory Guide 271 Internal Dispute Resolution (RG 271);  
(This includes insurers delaying and providing IDR responses later than 30 calendar days from the date of initial complaint, not providing the consumer with an IDR response, and failing to include relevant AFCA details in IDR responses)
- adequacy of claims handling and delays in claims handling
- conduct of assessors acting on behalf of insurers
- barriers to policyholders nominating third party representatives (including financial counsellors and other professional representatives), and
- transparency of documentation to support customers receiving cash settlements.

As discussed above, these issues relate to the core function of insurers and add to their business costs that are ultimately passed on to consumers.

### **Vulnerability following natural disasters or catastrophic weather events**

Natural disasters are traumatic and can be life-altering. AFCA's view is that most consumers lodging claims in the context of a natural disaster or catastrophic weather event, particularly of the scale of the four flood events across Eastern Australia between February and December 2022 (Major Floods), should be treated at least as suffering situational vulnerability.

Consumers impacted by natural disasters can be displaced from their homes and communities, have suffered extensive loss of property and find themselves in an acute state of uncertainty about their future. For some consumers the impact of disaster events compounds existing states of vulnerability or impairment.

AFCA's online complaint form asks complainants to self-identify if they need special assistance, and in what form. Our data for the Major Floods shows that 176 cases of special assistance were recorded, with the majority of these citing mental health as the underlying reason for requiring special assistance. Special assistance was therefore needed in about 5% of the 3,477 Major Flood complaints received by AFCA up to September 2023. These results should be considered in the context of complainants typically under-reporting vulnerability.

We support all efforts to consider the link between climate change and insurance premium increases and identify appropriate risk reduction actions that may lower these premiums. AFCA will continue to ensure that any instances where insurers are failing to meet their obligations are identified, addressed, and reported.