T R A N S C R I P T

LEGISLATIVE ASSEMBLY ENVIRONMENT AND PLANNING COMMITTEE

Inquiry into Tackling Climate Change in Victorian Communities

Melbourne—Wednesday, 26 February 2020

MEMBERS

Mr Darren Cheeseman—Chair

Mr David Morris—Deputy Chair

Mr Will Fowles

Ms Danielle Green

Mr Paul Hamer

Mr Tim McCurdy

Mr Tim Smith

WITNESS

Mr Karl Sullivan, Head of Risk and Operations, Insurance Council of Australia *(via videoconference)*.

The CHAIR: Welcome to the public hearing. Before we begin, there are some important formalities that I must outline. All evidence taken today will be recorded by Hansard and is protected by parliamentary privilege. This means that you can speak freely without fear of legal action in relation to the evidence you give. However, it is important to remember that parliamentary privilege does not apply to comments made outside the hearing, even if you are restating what you have said during the hearing.

You will receive a draft transcript of your evidence in the next week or so for you to check and approve. Corrected transcripts are published on the Committee's website and may be quoted from in our final report. I understand that you have been informed that today's proceedings are being broadcast live on the Parliament's website. Please be aware that the footage from the website can only be rebroadcast in accordance with the following conditions: the material must only be used for the purposes of fair and accurate reports of the proceedings and must not in any circumstances be used for satire or ridicule or commercial sponsorship or commercial advertising. Broadcast material must not be digitally manipulated. Any excerpts of the proceedings must be placed in context to avoid any misrepresentation. Any remarks that are withdrawn are not to be rebroadcast unless the withdrawal is also rebroadcast.

Thank you for making the time to meet with the Committee today. Could you please state your name and your title before beginning your presentation?

Mr SULLIVAN: My name is Karl Sullivan. I am the Head of Risk and Operations at the Insurance Council of Australia. Thank you for the opportunity. We do not have a lengthy opening statement. We are here to answer questions and any inquiries that you may have. I will say that we have recently, in the last year, established a Climate Change Action Committee, which is all of the major insurers, and we are working through a funded program of projects designed with creating an insurable future. This obviously includes rural Victoria, which I understand is your focus today.

That group meets on a quarterly basis and is attempting to push through practical, real-world projects using insurance data that can create better outcomes for the community, primarily through more resilient housing, more resilient buildings, mitigation programs and the sorts of things that insurers will be able to recognise through lower premiums or certainly premiums that reflect lower risks out in the regions.

I am more than happy to take any detailed questions from the Inquiry.

The CHAIR: Thanks, Karl, for that. Obviously one of the consequences of climate change is, for instance, more bushfire activity, where the fires are burning obviously clearly at a higher rate and the like. This obviously, I am assuming, presents challenges to the insurance industry. Where perhaps places in the past could be insured, it is now perhaps getting to a situation where it is getting more difficult for insurance companies to provide that insurance. Can you just step us through some of those challenges in a detailed kind of context?

Mr SULLIVAN: So all of those points are correct in the broad and in the general. When it comes down to actually underwriting homes that are in bushfire-prone locations, there are a number of variables that an insurer needs to take into a case. All of those variables change in a temporal sense.

So the first thing is, and to your first point, fires becoming more frequent or more intense. That is obviously something that insurers are very focused on. And we rely across Australia on bushfire-prone land mapping that is produced by state governments typically. Now, in Victoria we do not have access to that information, so insurers need to rely on other sources to try and gauge what is the level of bushfire risk at a certain location at any given time. So that is looking at the external factors and how is that frequency changing.

By far the most important factor with this is the building envelope itself. So right now insurers test how capable or how resilient the building will be to a bushfire by asking a single question, and that is: what is its year of construction? So if it is 2010 or younger, then insurers are able to assume that because it is on bushfire-prone land it will have only been given a development approval if it has been constructed in accordance with the building in bushfire-prone land standard. That enables the insurer to not have to ask many questions of the insured to determine whether the house is resilient or not.

So those are the two critical factors that we will be monitoring as climate change alters the frequency of fires and the intensity of fires and how buildings will respond to that. So we are very keen to make sure that as building codes change—and they should for the better—they keep pace with changes in frequency and intensity of bushfires.

The CHAIR: Okay. Would it be useful if for buildings built prior to 2010 there was some form of a mechanism which encouraged those home owners to take some additional steps to improve the fabric of their house to make it more bushfire resilient?

Mr SULLIVAN: Look, absolutely, and one of those mechanisms could be insurance. So if there was a standard, for example, about the retrofitting of an older home to become more bushfire resilient that could be called up, and then insurers could simply say, 'Has your home been retrofitted to this standard?'. That is something that they could take into account when they are setting a premium. That premium becomes a price signal, which motivates people to take action around that. Putting aside the issue of your improving your house and becoming safer, if you are able to offer a premium reduction because the house is more resilient, then that is a good price signal. We see that done with cyclone and flood in terms of retrofitting or raising a house in the case of flood. It is certainly possible to do, to an extent, in the bushfire environment. It is not as simple as cyclone or flood, where typically single actions at the building level might have a very, very significant impact on the resilience. Bushfires are far more complicated, but there is some very good work being done on this, by people in Victoria primarily, looking at how you might retrofit properties and how you might improve building codes going forward.

The CHAIR: I have got other questions, but I might hand over to some of my colleagues and we will come back.

Mr FOWLES: Hi, Karl. Thank you for being with us today. On that point of price signals, at the theoretical level probably that is an efficient way of getting behavioural change, but I am not sure that it works in a practical sense. I know that, for example, life insurers and health insurers incentivise people in a direct cash sense to go to the gym. Is there any regulatory hurdle to building insurers actually, for example, saying to someone, 'Well, if you agree to enter into a three- or four-year building insurance arrangement, we will actually fund this piece of retrofitting or that piece of retrofitting'?

Mr SULLIVAN: There are no regulatory hurdles to doing that whatsoever. That would purely be 'Could a commercial model be constructed that would allow that to happen?'. Price signalling works really well with flood and cyclone. In bushfire environments it is a little bit more muted. That is because bushfire risk does not make up a huge slice of a premium right from the outset. So toggling between modern home and old home you will see a few percentage points difference. But that is why we think more work needs to be done around those building-in-a-bushfire-prone-area codes so that we can work out, 'Should that be a bigger piece of the premium that gets subtracted once a home is improved?'.

The CHAIR: Why don't we do bushfires first, and then we can move onto other risks?

Ms GREEN: No. Mine is more about flood and water. I just say thanks for the work that you do in coordinating the industry in response to events. I worked with Laurie Ratz around the 2009 fires. I miss him. Various levels of government copped criticism for not being quick enough in response, and you do not actually hear it that often with insurance. Sadly the experience you have had of disasters in recent years has got you to be pretty nimble.

The CHAIR: Can I ask a question on underinsurance? Often people find a product. It may well be a product that is the cheapest on the market that they can find. They insure on that. They may in fact then, through a number of contracts, lock in on that product for perhaps a decade or something like that, and then you have an extreme bushfire season or whatever that occurs. What levels of underinsurance are there out there in the marketplace? Is the industry good at recognising things such as: 'You had a pre-2010 house. You lost your house because of bushfire. You wish to rebuild that house on that same parcel of land. The insurance might well have been appropriate to rebuild a 2010 house, but it isn't appropriate any longer to build under the modern standards'? Is that a real problem out there, or has the industry been quite nimble at ensuring that we have very low levels of underinsurance? I am just interested to—

Mr SULLIVAN: The industry has put a lot of work into providing guidance for how someone chooses or what sum insured value they choose at the time they purchase. Once they have selected a sum insured, most insurers increase that automatically at a set percentage every year that they have the policy there to keep up with changes in costs. But it does require the person to choose the sum insured at the front end of this. So insurers provide web calculators. In some cases they will encourage people to go and get quotes for rebuilding—that sort of thing. All web calculators include a component for the extra rebuild costs that could be anticipated for this very scenario that you are talking about there and that we are facing in eastern Victoria at the moment. The key is the person needs to make the decision about how much insurance they are actually willing to purchase. Some insurers will set an upper and a lower threshold and they will not sell you a policy for a value outside of those, but in the large it is up to the policyholder to decide.

In 2013 we had very bad bushfires in the Blue Mountains region. Underinsurance came up as an issue and the industry was put in the spotlight for this: why would you sell people a policy for less than they can actually do a rebuild for? Valid question. And we had some insurers who stepped forward and said, 'Well, I'm going to write to all my customers and say, "Here's the real rebuild value. This is what you really should insure for"'. The response from the community was very, very clear. It was, 'Well, you would say that, wouldn't you, Mr Insurer. You want to sell me more insurance'. This is about community education. The tools have been put there by the industry. People can access them. People can get a recommended sum insured that incorporates the full spectrum of the costs, but they have to understand why they need—

The CHAIR: Most of us, particularly if we have owned a particular property for 15 or 20 years, would have some understanding of the potential value of the house through what other like properties in our communities have sold for or what our rate notice says is the capital improved value and the like, but with building standards those observations may not be appropriate to select the risk. Most people are not experts, obviously, in insurance and the like. Typically, I suspect, most people do not read the fine print to the extent that they should, because often there is a lot of fine print, and do not understand that perhaps building standards in their local areas have changed. They do not follow the debate that closely. So what sort of education initiatives does either the insurance council or indeed individual members undertake to inform the broader community about some of these challenges that people do need to be thinking about and reflecting on?

Mr SULLIVAN: Great question. The very first sentence there you used the word 'sale' as an indicator, and that is not reflective of the rebuild cost. So this is the essential point that we have to educate people around. The rebuild costs involve any number of other factors in there, the first and foremost being there might be $50 000 worth of costs right at the outset to remove all the debris from the site. Then you have got temporary accommodation, project costs, architects, development approval costs. So market value of a property is not a good reflection of rebuild value.

How do we educate people around that? Well, all of the insurers do direct people through web calculators and explain that difference. We run sites like understandinsurance.com.au that go into some detail around that, and we provide guidance through things like MoneySmart and places like that. There is always the challenge, though, of getting time-poor people, who may think about insurance one day a year when it is time to renew, to actually sit down and analyse their situation and understand that. So I think the industry can certainly always do more to educate, but you have got to have an audience who is willing to listen. And simple things that we do in some other jurisdictions are: we get actors other than the insurance industry to put some of those messages out there. So, for example, in all the pre-season preparation messaging from agencies and from government, you rarely see them saying, 'Is your insurance arrangement correct for you? Have you looked at what your rebuild costs will be? Are you ready to go?', as an important part of the overall preparing for the bushfire season. So we are certainly very open to using any mechanism at our means to help people understand what is an appropriate level of insurance to purchase—should they be purchasing flood insurance; should they not—all those sorts of things. So the work has been done; it is just a question of finding every available channel to put it in.

Ms GREEN: We saw it covered buildings there, the insurance of buildings. Your increased use of web calculators and all that is a really good thing. You also talked about people not understanding that you have to pay for site clearance and all that. With these mass fires in 09 and the current recovery in New South Wales and

Victoria, both governments have said—I think we were the first government in the world in 09 that undertook site clearance. I was in Portugal, Spain and Greece last year and they were really surprised; they had never heard of it. So that is kind of an assistance to all policyholders who do not have their post-2010 insurance.

But I thought what has the industry given consideration—with the web advice, things like that and having pop-ups? I have in my electorate so many large allotments and people that had stuff—you know, boats, multiple vehicles, work tools, all those sorts of things—and they just did not really understand that if it was not in a shed, it was not insured. So I think that increased awareness around contents, especially when people have got work tools of trade there—then you also talked about the use of other actors and maybe trusted sources. I think one of those who has been really good out there is Scott Pape, the barefoot investor who lost his own house—and then talking about what it is like. So the more we can get that sort of real-life person out there, the better.

Mr SULLIVAN: Yes, definitely. You hit on a core problem there for the industry, which is that people tend to shy away from reading the policy disclosure statement. People seem to put more effort into researching those smart phones I can see on the desk there—what is their next purchase going to be?—than they do about the financial instrument that could replace everything they own. So how do we shift that? The industry has been working through a very major project around disclosure and what is the next phase of disclosure: how could you improve it; how could you make it intrinsically more accessible and more attractive for people to read? I think if we did an honest poll of everyone sitting at that table, very few of you will have read your policy.

The CHAIR: Zero.

Mr SULLIVAN: Yes, even though they are very, very different to how they used to be. If you go back 10 or 20 years ago, they were very large documents. Now they are a lot more illustrative and easy to understand, but people are time poor, and they need to understand the importance of reading that, and the industry is making every effort it can to make it easier to read while still being a contract, because that is what this is. You are entering into a contract with the insurer to do certain things for you if certain things occur. You cannot simplify these contracts down to the point where it is just simply, 'We pay for everything that might happen, no matter how inconceivable'. There have to be terms and conditions, otherwise the prices around these things would be astronomical.

Mr FOWLES: It strikes me that there is a fundamental inequity, where often in large-scale events the uninsured end up being resourced to some degree to rebuild homes, whereas the insured have their insurance to draw upon. It almost rewards bad behaviour. I wonder to what extent there should be a mandatory minimum level of insurance, and in a similar vein, for those who are insured—whether the insurance is mandatory or not—to what extent there should be a mandatory minimum level of insurance.

Mr SULLIVAN: That is a question that often comes up after these big events. Traditionally we are not particularly wedded to the idea of making any form of insurance mandatory or certain levels of insurance mandatory. There are public good types of insurance, like your third-party injury insurance and that sort of thing, that should be there, or Medicare—things like that—but when it comes to a private asset or a private business, that person needs to retain the freedom to make choices around if they insure or not and how much insurance they take. They may wish to self-insure or do something else.

If you move into a mandatorily insured space, you remove a lot of innovation out of the market and you will certainly flatten it out. So you will find that everybody will start to default down to that minimum. So it is always better to create an environment where people understand that they have those options there, that they can protect themselves appropriately. Banks and other lending institutions typically require—at least in the first few years of lending—a minimum level of insurance to be held. That does tend to fall off over time. So there are mechanisms there, and it is better to get education in place.

Your point about the non-insured perhaps getting a bit of a free ride after these events, that is something we are acutely aware of in all of these things, but you do not see too many people just getting enough money from government or donation funds to completely rebuild a house. It is a sort of minimum level of assistance designed to get them at least with some kind of a roof over their head. So we are very pro education, we are very pro putting lots of choice in the market there. If you wanted to go down the mandatory insurance space, that is a very, very difficult problem to start to tackle, because there are a raft of ills that will come up as a result.

The CHAIR: Just a follow-up on this and then we might move to a slightly different element. You just indicated there that banks, particularly early on when someone has taken out a mortgage and bought a property, might be a little bit more interested in ensuring that the house that they have got a mortgage against is appropriately insured. Is there more that could potentially be done in that space just to generally lift insurance rates?

Mr SULLIVAN: Yes. I cannot speak on the half of the banks, obviously, but they are already doing a lot of work in this space around responsible lending, so it is not just about can the person repay this over time; it is are they protecting themselves or protecting the bank against a total loss scenario? So we are starting to see a tightening up of those conditions. If we track back 10 years or 20 years ago, they might have a requirement to have the bank noted on the policy, first year, second year, but there is really no compliance after that point. We are seeing that shifting, and that will help with people being put in a position where they really need to be protecting themselves or protecting the bank against the total loss. The bank usually does not require you to insure for rebuild costs, though. They will set a minimum amount of insurance that you have to have, and that minimum amount will be the difference between the building value and the land value, because if there is a total loss and so the bank loses the improved value, at least they have got the land value they can rely back upon.

Mr HAMER: I have got a couple of questions. The first question is just a clarification of what you said earlier. It was in relation to the Chair's question about underinsurance in terms of a property that may have been purchased, say, in 2008. So they looked at what was the cost of the rebuild and the insurance. Were you saying that the insurance calculator at that time would take into account future changes to building codes and what might be in addition to what was already there; is that what you were saying?

Mr SULLIVAN: So if you take the example of a house built in 2008, a web calculator then would not take into account a building standard that did not exist in the future, so it is an interesting scenario that you identify there. I am happy to come back to the Committee with a response on: if a person purchased in 2008 and has never changed insurer since that day, how has the recommended sum insured potentially changed over that time because of building code change after the purchase?

Mr HAMER: Yes, that would be interesting.

Mr SULLIVAN: Certainly if you purchased in 2010 and you had a very old home, it would incorporate a recommended factor that accommodates building to a higher standard. So if you are building in the worst possible location in Victoria for bushfire risk—in the flame zone or BAL-40—you might expect that it would recommend in the vicinity of an additional 25 per cent of sum insured in order to do a full rebuild.

Mr HAMER: Yes, I think that would be useful because even after the current summer, I mean, there might further changes or there might be other identified areas in terms of the risk, so it would be a constantly evolving space. So how you would approach that or how your organisations would approach that I think would be of use.

If I can turn to more insurance of larger organisations and particularly councils and other government entities, we have taken quite a lot of evidence from local governments across the state about the impact of their assets. They would have millions of dollars worth of assets—road, kerb and channel, seawalls in some places et cetera, et cetera. What they may have designed for a one-in-10 event may now be actually a one-in-one event or the like going forward. From an insurance point of view, how is that being treated and how has that, I suppose, relationship been affected by the demands of the changing nature, particularly because their assets are probably most affected by these extreme events and the frequency of the extreme events?

Mr SULLIVAN: I will start by saying that insurance for local government assets and government assets is not particularly my precise field of expertise, but I do work with people who work in that space. The principles are exactly the same as insuring anything else. When the underwriter goes forward, has a look at the assets, at least on paper, they need to form a view about, 'Is there mitigation in place that reduces the risk to an acceptable level?'. If we use the most simple mental picture, a bridge, if they are insuring a bridge, they will certainly want to understand, 'Is that bridge likely to survive the 1-in-100-year event or the 1 per cent probability because it has been designed appropriately?'. If yes, they will set a price around that that reflects that probability. So the situation you are talking about is the probability changes. It starts to become much more frequent, so instead of a 1 per cent probability of a bridge being lost, let us say it becomes a 5 per cent probability because the flooding is more frequent or deeper. Then the insurer will simply adjust the price and obviously increased risk increased prices.

Where does that lead to? At some point either the client cannot afford to pay the premium—the premium is higher than the replacement cost of the assets on that kind of frequency—or the insurer says, 'I have too much capital at risk in this scenario'. So this all circles back to mitigation and good planning. Any defensive infrastructure being put in place—any bridges, roads, assets like that—needs to be built with the future in mind. It is certainly no good building a flood levee to a 1 per cent protection standard because that flood levee is expected to be around for at least 100 years and how will that frequency change over that time, so it should be built with much larger events in mind. Does that answer your question?

Mr HAMER: I think it does. You would hope that any new assets would be built with that in mind. It is primarily, I guess, for the existing assets, which are substantial, so from an insurance point of view that is, I guess, a constantly evolving calculation. As new information becomes available, then the accountants, actuaries and others in the insurance companies would be analysing and reassessing the probability and then going back to the organisations to say, 'Well, looking on our forecasts this is how things have changed, and these are the new premiums'. Is that generally how it works?

Mr SULLIVAN: That is precisely right. Insurers have the luxury of writing an annual product, so each year they will review what has happened, how the risks have changed, is the amount I am charging for this risk appropriate for the next term of the contract. If not, you may find the price goes up. You may find the price comes down if, for example, the council says, 'We've done this mitigation work that has reduced the risk'. We see that quite often where there has been a very proactive approach to risk reduction in an area. The most important thing there is the dialogue that occurs. If flood defensive works are put in place, insurers need to know about that with some precision so that they can factor it into the risk going forward.

The CHAIR: I just have a follow-up before I head to Danielle. We heard some evidence from some councils where some stormwater infrastructure was damaged and it needed to be replaced. The council wanted to build in additional capacity recognising climate change might lead to more intense rainfall events more often, and I think they were prepared to cover the difference between rebuilding the asset as it was and building in extra capacity, yet their insurer said they had to rebuild to the standard that they had. Is that a common problem that you have come across where councils cannot put additional money in when they are claiming to increase the capacity of their infrastructure?

Ms GREEN: In the event of a loss that is.

The CHAIR: Yes.

Mr SULLIVAN: I suspect that is more about the mechanics of the repair and replacement process, how that would be done, but if we translate that back to just say one of your homes, if they were totally lost and you wanted to rebuild back in a different way, a more expensive way, you would have the option of talking to your insurer about how to proceed with that. Some insurers may allow you to fund a little bit of difference, but most of the time it will simply be about, 'Okay, we will give you a cash settlement to replace the infrastructure as we insured it'. That enables you to then add your own funding to it to build it back to a higher standard.

The other option there that councils have, and I know that this system is a little bit flawed, is the betterment provisions under the NDRRA. Those were there so that when people have to replace destroyed infrastructure that protects a community they can build it back in a better way, so that next time that event occurs we may prevent that damage. So I know there is work going on around reviewing all of that between the states and the Federal Government.

Ms GREEN: Karl, that is only in the context of a natural disaster, a declared natural disaster?

Mr SULLIVAN: Yes.

Ms GREEN: Because that evidence that the Chair talked about was tendered where I think there were some coastal surges and some riverine flooding in a particular coastal area, and they were just told point-blank that they had to replace it at the same standard, which seems to go contrary to what the industry is saying in terms of premium setting, and you acknowledge it is clunky. But the other side of that is we also heard evidence where an inland council had said that they had two or three 1000-year floods in two years or something and they were just told, 'No, you're not insured', and there was nothing in their policy to say that. So on the one hand one local government there is saying, 'We're not a going to cover you because of the impacts of these greater incidences due to climate change', then another council is having to build back at a lower standard that is now redundant.

Mr SULLIVAN: To the first point, I suspect that conversation is more likely to have been, 'We're not going to fund you to improve the infrastructure beyond the point where we insured it. We will certainly fund you—

Ms GREEN: That is not what the evidence said. I will double-check the transcript, but my memory was certainly like they were just directed, and we all thought that would be great. If you get a cash settlement, you just make the choice, but this was where they had actually directed them to restore the drainage infrastructure as it was.

Mr SULLIVAN: Without the knowledge about what the policy was, who all the players are there, it is a little difficult to form a view. It is the same for the event where there is a one-in-1000, one-in-2000-year riverine flood. You would have to look at the policy to see whether that is particularly excluded or not or how a flood is in fact treated under that. This sort of work you are talking about here with local governments is very, very different to insuring Mum and Dad's house. It is all constructed and heavily brokered and negotiated out so that each policy can be very, very precise and tailored to a particular area. That is work we are happy to have a look at in more detail with you if you like.

Ms GREEN: But mum and dad ratepayers would end up paying for it through their council rates if it is not done well.

Mr FOWLES: To what extent, Karl, do you think the prospect of sea level rises will result in entire communities either facing uneconomic premiums or the complete inability to be insured? You have done some work into modelling the impact of rising sea levels and what that might mean for some of those low-lying coastal communities.

Mr SULLIVAN: Yes, some very preliminary work over the last five or six years has been done around this. Let me start by giving you a scenario: if the seas rose 5 metres tomorrow through some cataclysmic event and that saltwater was 5 metres higher and inundated, let us say, 800 000 homes around the coast, there is no insurance claim in there. Actions of the sea are more or less completely excluded globally. Right now, if the seas rose, no claims. If you give us a sea level rise map to say this will happen in the next year, in the life of the policy, in theory no change to the premium because that risk is not covered. However, we do see that if that scenario starts to eventuate in a very gradual sense, there may be a need for a product in the future around that, but it would be a very different nature of product to standard home and contents insurance, which anticipates a cataclysmic event occurring in the space of one year of the policy. Gradual sea level rise is very different to that. It might be more akin to life insurance for a policy, where at some point we know that that land parcel will no longer be able to be used for the purposes it currently has. So it tends to lend itself—

Mr FOWLES: How about this scenario: seas are fed by rivers. As sea levels rise rivers back up, if you like—

Mr SULLIVAN: Block it, yes.

Mr FOWLES: There is going to be plenty of riverine flooding that is going to be explicable by rising sea levels. Is that excluded as well, and if not, do you think there is a risk that low-lying coastal communities that are bounded perhaps on one side by the ocean and on one side by a river are going to be at risk of being uninsurable?

Mr SULLIVAN: So riverine flooding in the scenario you present there is a great one to examine. When a flood map is put together by a local government, or in your case a catchment management authority, and it is in a catchment where the water is escaping out to the sea, they generally have a blocking factor in there. So they will assume highest astronomical tide, maybe a bit of storm surge activity because this typically happens during a low-pressure event, so that they have to factor in that the water is not going to escape in the best way possible.

The same thing happens with sea level rise. As sea levels actually start to rise those blocking factors will start to increase, so you would find that the footprint back from the coast in the catchment would start to expand, so more people maybe caught by a riverine flood risk than 10 years before this particular flood has occurred.

Mr FOWLES: By blocking factor do you mean a factor that blocks them getting insurance?

Mr SULLIVAN: No, sorry—

The CHAIR: The water getting out.

Mr FOWLES: The water getting out, right.

Mr SULLIVAN: The sea levels rise and the water cannot escape: it is blocked.

Mr FOWLES: Got you. But in terms of the insurance impact of that, there will be some communities that are, as I say, bounded on one side by the ocean and one by a river or something. They are at increased risk as a result of sea level rises. Do you think that that will actually result in either uneconomic premiums or a complete refusal to insure?

Mr SULLIVAN: Presently no. However, it is risk rated. So if left unmitigated, if nothing is done to change that scenario, then premiums will continue to rise, and they will logically get to a point where people will have to start making a judgement on my side of the ledger whether a policy can legitimately be developed and sold to that person and on the home owners side whether they can in fact afford it.

Redlining is a term that we are seeing a lot in the media at the moment. Nowhere is redlined. We have only seen one example of it in the last decade in Australia, and how was that fixed? How was the redline removed? The Government stepped in and did some mitigation and prices came down by 35 per cent. So prices will go up, prices could become unaffordable if these risks are left unmitigated.

The CHAIR: Thank you, Karl. Very much appreciated.

Mr SULLIVAN: Thank you, and I will follow up on that additional point that we discussed.

The CHAIR: Terrific. Thank you.

Mr SULLIVAN: Thank you everyone.

Witness withdrew.