

National Disaster Funding Arrangements
Productivity Commission
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20 October 2014

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**Munich Reinsurance Company (Munich Re)
Response to the Productivity Commission Inquiry Draft Report into
Natural Disaster Funding Arrangements**

Munich Re commends the Australian Government for instigating this public inquiry by the Commission into the efficacy of current national natural disaster funding arrangements and welcomes the opportunity to respond to the draft report that was released on 25 September 2014.

Munich Re is one of the world's leading reinsurers and it is our strong belief that Australians face a growing challenge, both economic and social, from natural disasters and that action is required now to address the implications for future generations. This is one of the key reasons for our involvement in the Australian Business Roundtable for Disaster Resilience and Safer Communities - <http://australianbusinessroundtable.com.au/>. Munich Re is also a member of the Insurance Council of Australia (ICA) - www.insurancecouncil.com.au. Whilst we have contributed to, and fully support the separate submissions by the Australian Business Roundtable and the ICA, we wish to supplement those with the following comments:

Natural Disaster Projections

Draft Report Reference: Volume 2, Section 2.2, page 234.

We agree with your statement "Beyond that, evidence suggests that the climate itself is changing and this is expected to lead to greater variability and potential changes to the frequency, intensity, location and duration of extreme weather events such as bushfires and tropical cyclones."

However, the possible economic and social impacts of a changing climate have not been factored into the longer term outlook for Australia. In 2013 the Australian Business Roundtable commissioned Deloitte Access Economics to forecast the total economic cost of natural disaster to 2050. The results are quoted in the *Draft Report (Box 2.8, page 248)*. This remains the most detailed forecast that we have seen, and whilst assumptions can always be challenged, the fundamental trend is apparent.

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Page 2

20 October 2014

What is not immediately transparent is that the forecast figures do not include any allowance for the effects of climate change, and should therefore be considered as being optimistic.

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Information and Communication

Draft Report Reference: Volume 1, page 26, penultimate paragraph.

We note the Commission's comment regarding a national hazard data capability:

"there is no compelling case in the evidence so far for establishing a national 'clearing house' for natural hazard data"

The need for such an approach to critical data has been elaborated by several key stakeholders, including the Federal Treasury, the Australian Business Roundtable (in the 2014 publication *'Building an Open Platform for Natural Disaster Resilience Decisions'*), GeoScience Australia, the Bushfire & Natural Hazards CRC, the Insurance Council of Australia, and was also identified in COAG's 2013 National Adaptation Priorities.

Munich Re supports this initiative and feel that the Commission's finding should be reconsidered.

Managing Natural Disaster Risk to the Built Environment

Draft Report Reference: Volume 2, Section 7, page 401 onwards.

Whilst we applaud the key points raised in this section of the *Draft Report*, the key linkage of access to data is overlooked. If building regulations and land use planning are to be efficiently managed, then access to national hazard data is essential to all stakeholders. We also support the comments made by the Australian Business Roundtable that there is scope to enhance building standards so that they protect the property itself, and its owners financial interest, without sacrificing safety performance.

Should you have any questions, or wish to discuss any aspect of our comments, please feel free to contact the undersigned at your convenience.

Yours sincerely,

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A Word About Munich Re

Munich Re is one of the world's leading reinsurers with almost 45,000 employees spread across the globe. Our business model is based on the combination of

insurance and reinsurance under one roof. We take on risks worldwide of every type and complexity and our experience, expertise and financial strength makes us the first choice for all matters relating to risk.

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Geoscientists at Munich Re have been analysing the effects of climate change on the insurance industry since the 1970s. Climate change is changing our world for ever. Only if we manage to anticipate these changes appropriately, and align our business model correctly to the changing world around us, will we be able to deal effectively with the risks from climate change, while also profiting in the long term from the areas of emphasis in our business management.

For that reason, we do not want to concern ourselves solely with risks that are already well known today. Instead, alongside natural climate variations, we integrate anthropogenic climate effects into our business processes on the levels of risk measurement, business development and asset management. We keep a close watch on all of the different fields that are influenced by climate change and that could have a substantial impact on the financial services and insurance industries.

We are also involved in industrial initiatives that are setting pioneering standards for sustainable management. We engage in the political sphere to the extent compatible with our business activities and endeavour to consolidate our reputation as a credible company.

References:

- *Australian Business Roundtable for Disaster Resilience and Safer Communities:*
 - o *“Building our Nation’s Resilience to Natural Disasters” 2013*
 - o *“Building a Platform for Natural Disaster Resilience Decisions” 2014.*
 - o *Submission to Productivity Commission Inquiry Draft Report into Natural Disaster Funding Arrangements, 2014.*
- *COAG Climate Change Adaptation: Roles and Responsibilities for Climate Change Adaptation in Australia (at page 4).*
- *Insurance Council of Australia: Submission to Productivity Commission Inquiry Draft Report into Natural Disaster Funding Arrangements, 2014.*