



Half-Day
Seminar

Natural Disaster **Insurance Review** – Discussion of Options

Wednesday, 6 July 2011 • 8.30am – 12.30pm Westin Hotel Sydney

Institute of Actuaries of Australia **NDIR - Discussion of Options**

John Trowbridge – Chairman of the Panel

SMS Questions
0402 293 251



Government objectives

To ensure:

- ability to recover and rebuild quickly after disasters
 - people to choose where they live in an informed way
 - people are aware of risks, can insure against them and can benefit from mitigation
- ‘... to foster more complete sharing of risk and equitable sharing of the cost of damage and loss resulting from floods and other natural disasters throughout the nation’



Guiding principles

- Government intervention only if insurance not **available and affordable**
- Risk mitigation a key objective
- Individuals and businesses encouraged to insure

Theme: availability and affordability of insurance

Perils

- Flood
- Bushfire, cyclone, earthquake
- Other – landslide, actions of the sea

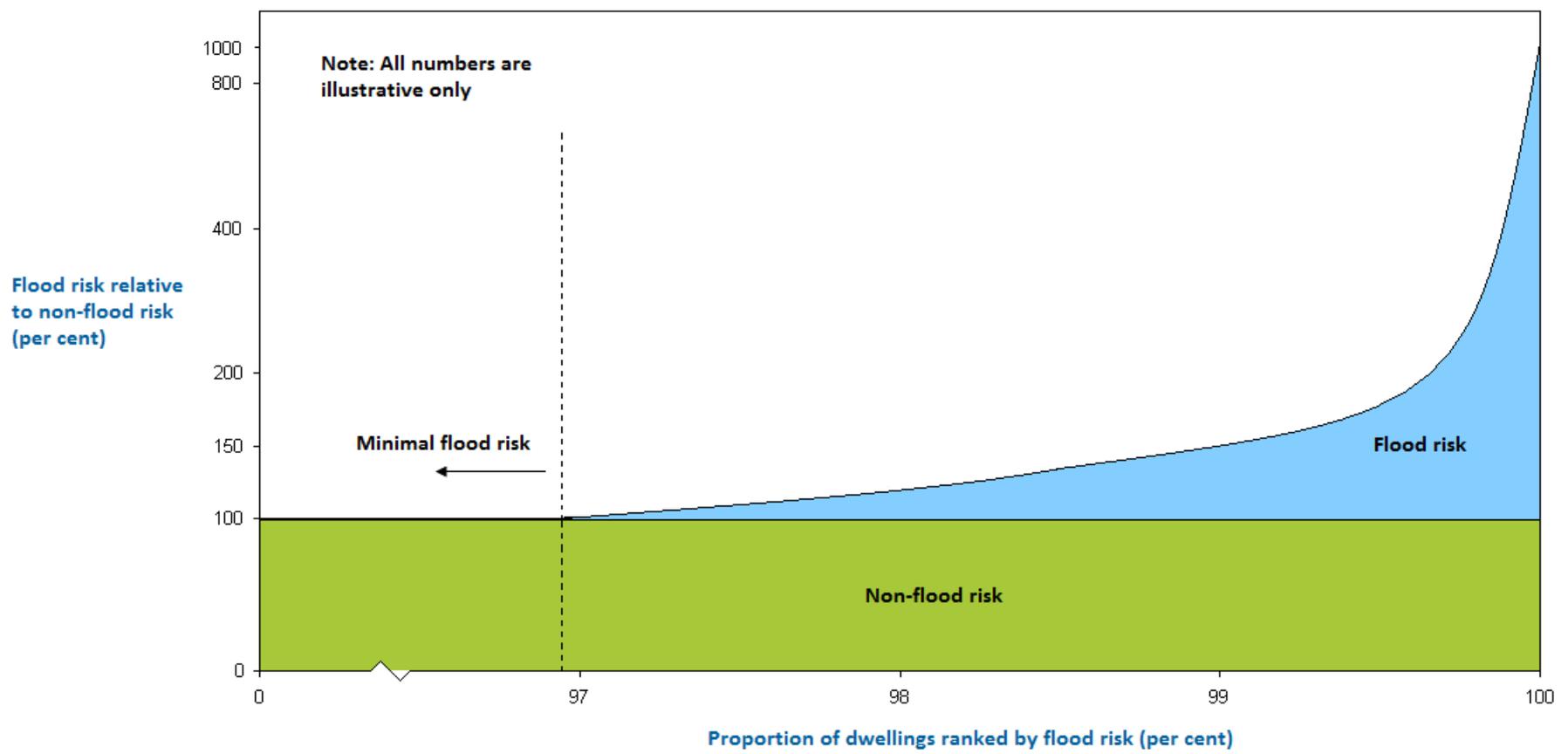
Assets

- Residential homes
- Contents
- Other residential property (strata properties)
- Small business

Attributes

- Non-insurance
- Under-insurance
- Insurance market – effectiveness, limitations
- Role of lenders
- Consumer understanding
- Claims resolution
- Measuring flood risk
- Mitigation

What is the flood insurance problem?

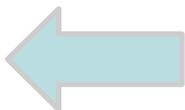




Alternative flood cover models

Automatic Flood

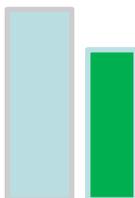
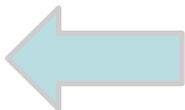
All insurers obliged to offer automatic flood cover



All insured properties covered for flood

Opt Out

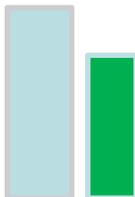
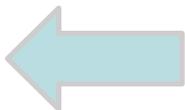
All insurers obliged to offer automatic flood cover



Owners free to insure with or without flood cover

Status Quo

Insurers free to offer or not offer flood cover



Owners free to insure with or without flood cover

Implications of flood cover models

Model	Availability	+ Affordability	= Access	→ Coverage*
Automatic Flood Cover	Yes	With intervention	With intervention	All
Automatic Flood Cover with Opt Out	Yes	With intervention	With intervention	Many
The Status Quo	Maybe	No	Some	Some

Implications of Automatic Flood Cover

Primary benefits:

- all insured properties automatically covered for flood
- disputes over cause of water damage eliminated
- may generate -
 - more confidence in the insurance system
 - brand protection for insurers

but requires mechanisms to -

1. identify the higher flood risk properties
2. give discounts on higher flood risk properties
3. fund the discounts

while also avoiding moral hazard –

- flood risk mitigation needs to be encouraged and funded
- owners, developers and councils need the right incentives

Implications of Opt Out of Flood Cover

Primary benefit:

- all policyholders obliged to accept flood cover or to decline it explicitly
 - ... responsibility for having flood cover is clearer

but

- take-up of flood cover will remain limited
- disputes over cause of water damage will continue to occur

and requires same mechanisms as Automatic Flood Cover to –

1. identify the higher flood risk properties
2. give discounts on higher flood risk properties
3. fund the discounts

while also avoiding moral hazard –

- flood risk mitigation needs to be encouraged and funded
- owners, developers and councils need the right incentives

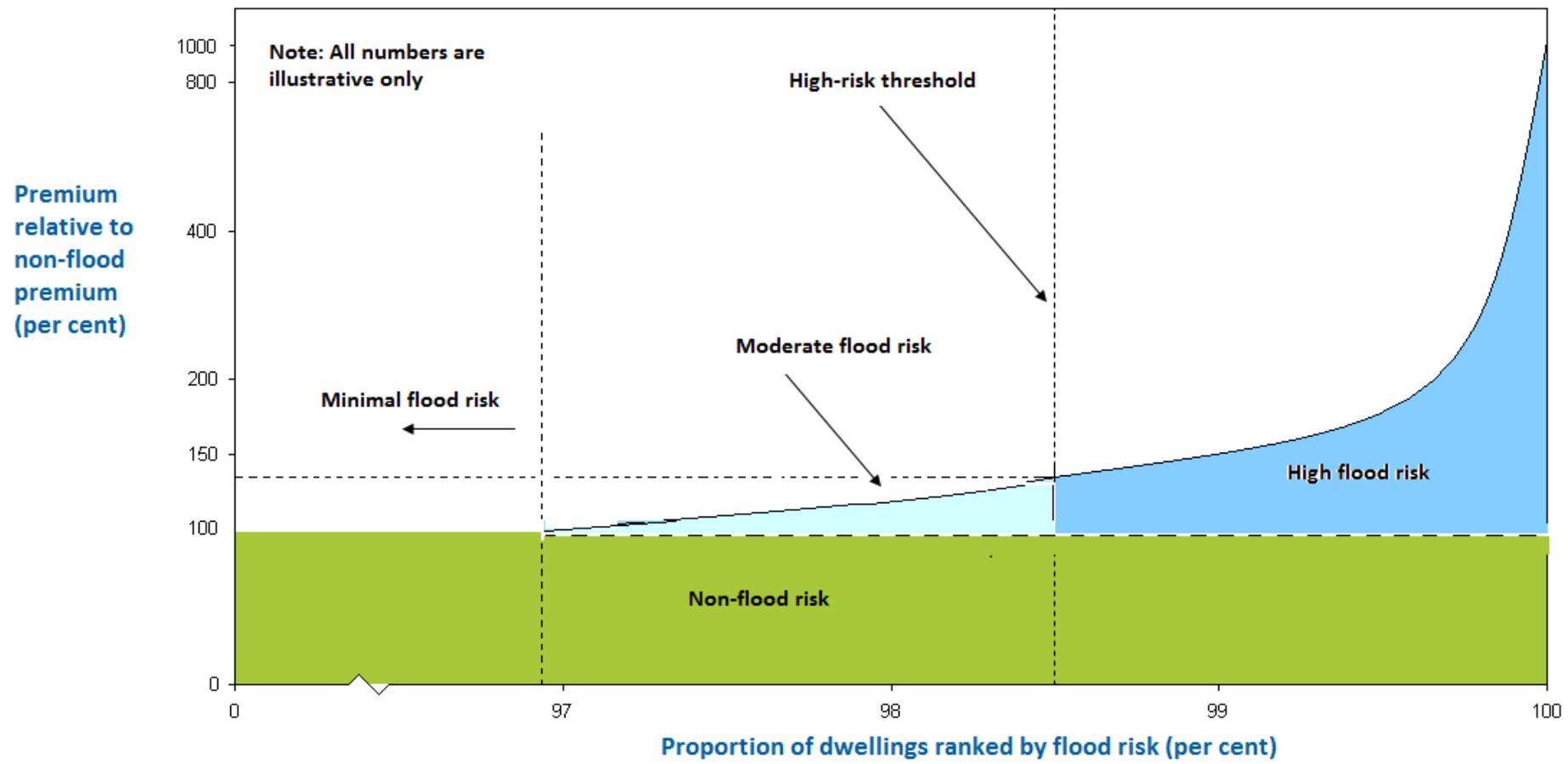


Affordable flood insurance for high risk homes?

A Flood Insurance Pool requires the means to -

1. identify the higher flood risk properties
 - a critical exercise
2. give discounts on higher flood risk properties –
 - establish full prices and discounted prices
 - measure the discounts
 - maintain access to flood risk data
3. fund the discounts
 - receive subsidies – sources?
 - undertake financial management of the Pool
4. manage the risks including moral hazard –
 - flood risk mitigation
 - owners, developers, councils and governments

How do we identify the higher risk properties?





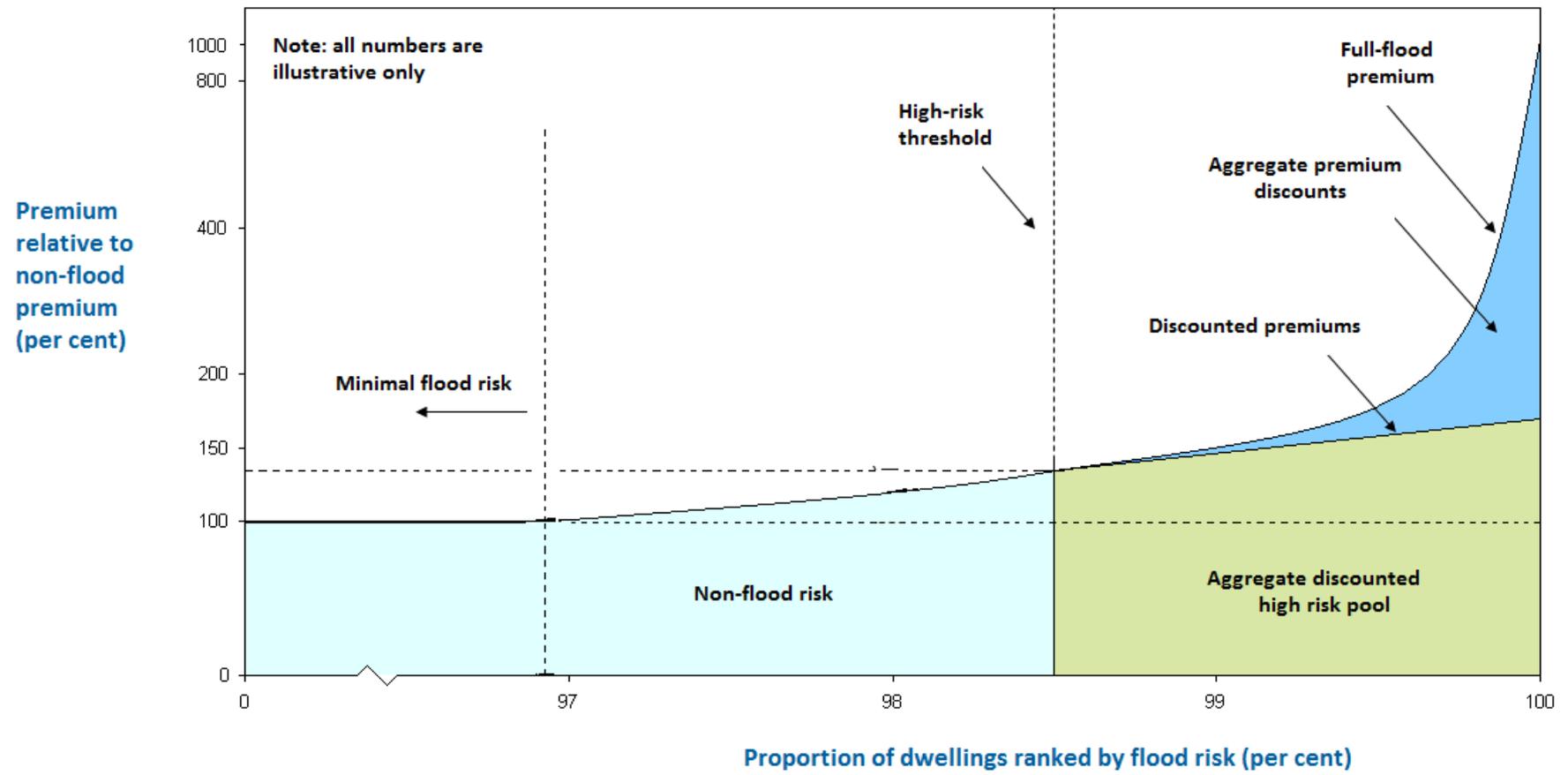
Identifying the high flood risk properties?

How do we determine a high flood risk threshold?

For example –

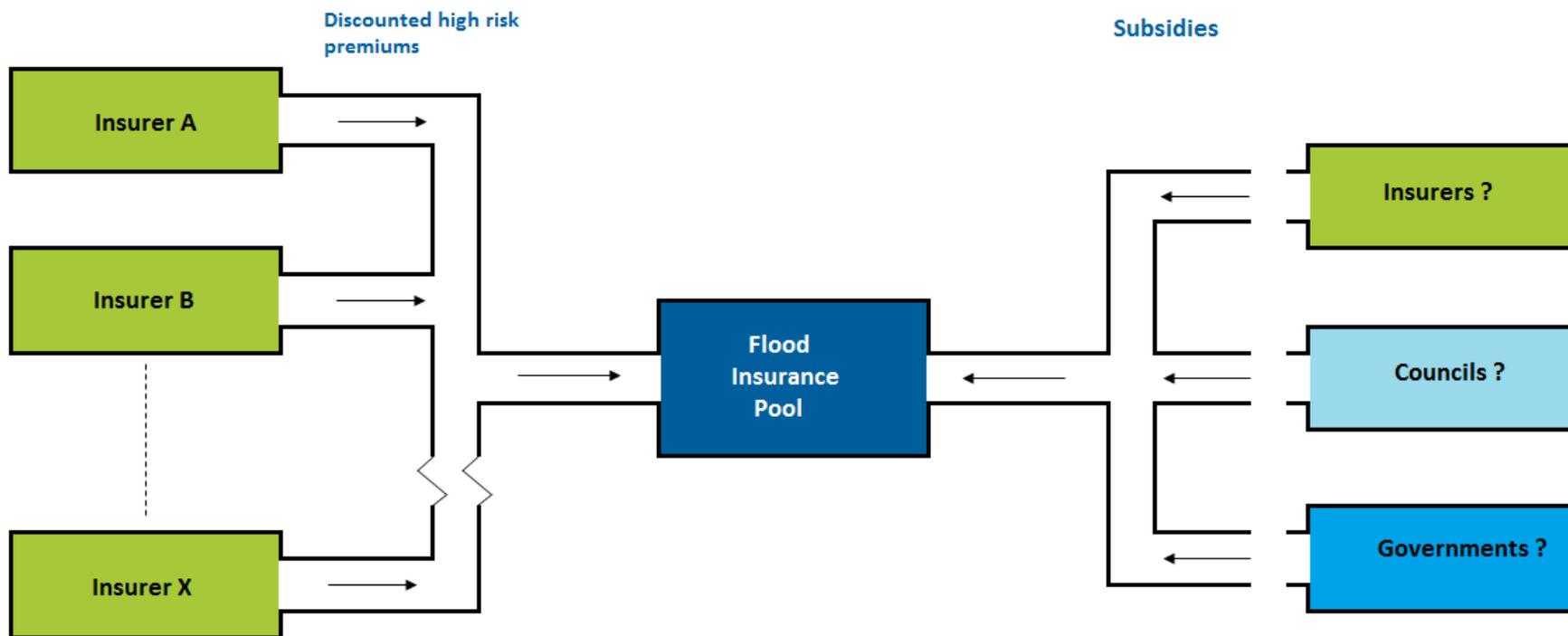
- **Method A: use engineering techniques**
 - flood mapping – boundaries at say 1 in 100 ARI?
 - can we account for individual building features?
- **Method B: use insurance market mechanisms**
 - designed around risk-based pricing
 - Boundary set at highest price where market is competitive and price reasonable
- **Other techniques?**

Giving premium discounts on higher risks properties?





General Schema for Flood Insurance Pool





Some other topics (A)

1. Flood cover for other classes of assets

Should any new arrangements for flood cover for homes also apply to

- contents?
- strata properties?
- small business?

2. Under-insurance

Bushfire experience reveals material under-insurance for total losses

- should replacement cover be standard?
- is sum insured plus buffer (for example, 25 per cent) an effective substitute?

3. Non-insurance and compulsory vs voluntary insurance

Non-insurance for homes is low (< 5 per cent?)

Non-insurance for contents is high (> 25 per cent?)

- is there a case for any form of compulsory insurance?

Some other topics (B)

1. Role of lending institutions

What level of responsibility do lending institutions have towards themselves and towards their home mortgage customers for insurance cover, including flood?

2. Measuring flood risk

The existence, quality, scope and consistency of flood maps are variable

- **Is a nationally consistent approach needed?**
- **If so, who should undertake and fund the work required?**

3. Mitigating flood risk

Have past flood mitigation projects affected the underwriting and pricing practices of insurers and reinsurers?



Some other topics (C)

1. Consumer understanding

- What measures could improve consumers' understanding of risks and insurance cover?
- Would homeowners benefit from accessing personal advice that takes account of their risks?

2. Resolution of claims disputes

- How can the dispute resolution process be improved and made more transparent?
- Should there be a time limit for insurers to respond to a dispute following a natural disaster?

3. Other Natural Disasters

- Is there a case for extending the scope of insurance to cover landslide and actions of the sea? and to cyclones?



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