



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

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

## **Natural Disaster Insurance Review Issues paper – An Industry Perspective**

**Robert Whelan,  
Executive Director & CEO  
Insurance Council of Australia**

**SMS Questions 0402 293 251**



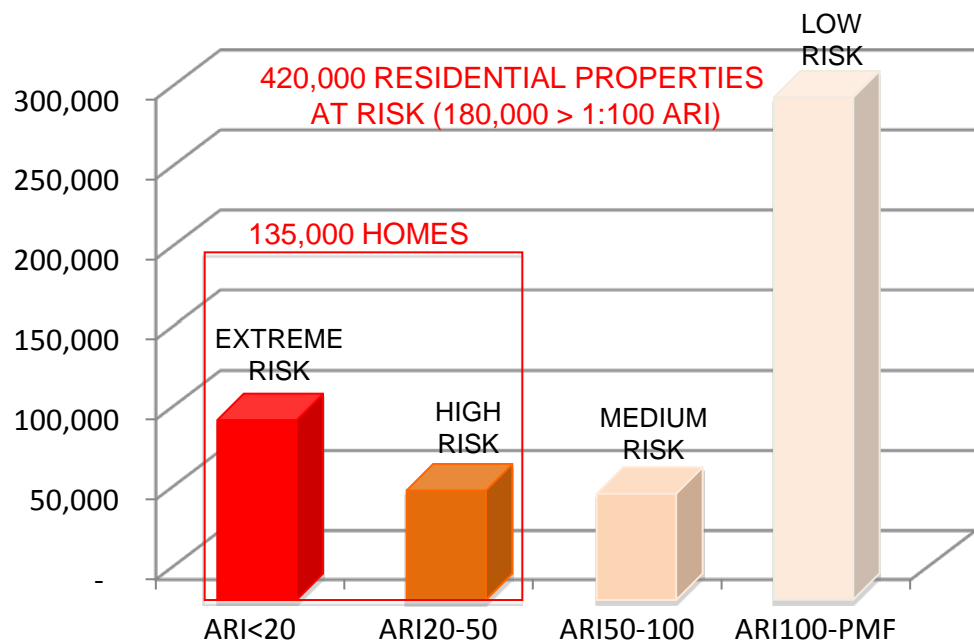
## Points to be covered:

- Flood – The true nature of the problem
- Increasing industry role and progress to date
- A way forward to solving the problem



# Why is flood a problem?

- Flood damage is a persistent risk to approx 7% of residential properties
- Problem is big, growing and expensive \$400 - \$450 m per annum in damage
- Same areas flood on a regular basis
- Poor land use planning and building codes perpetuate and exacerbate problem





# Key drivers of the flood risk

## DRIVER

Existing land use planning and development controls continuing to grow stock of at risk properties

## DRIVER

Inadequate flood maps and data contribute to lack of awareness of risk

**422,759 Residential properties at risk**

Any reforms should Address the risk drivers first

## DRIVER

Poor mitigation insufficient funding to reduce risk to established communities

Helping Individuals to Recover from the Risk

Availability of flood insurance limited by affordability for those at extreme risk



# Flood: A complex problem requiring a coordinated response

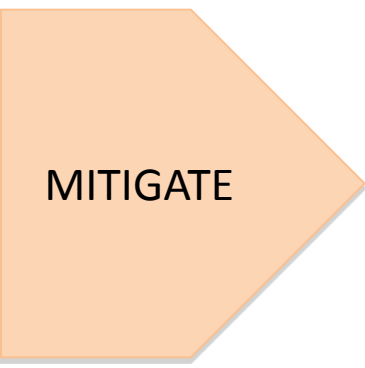
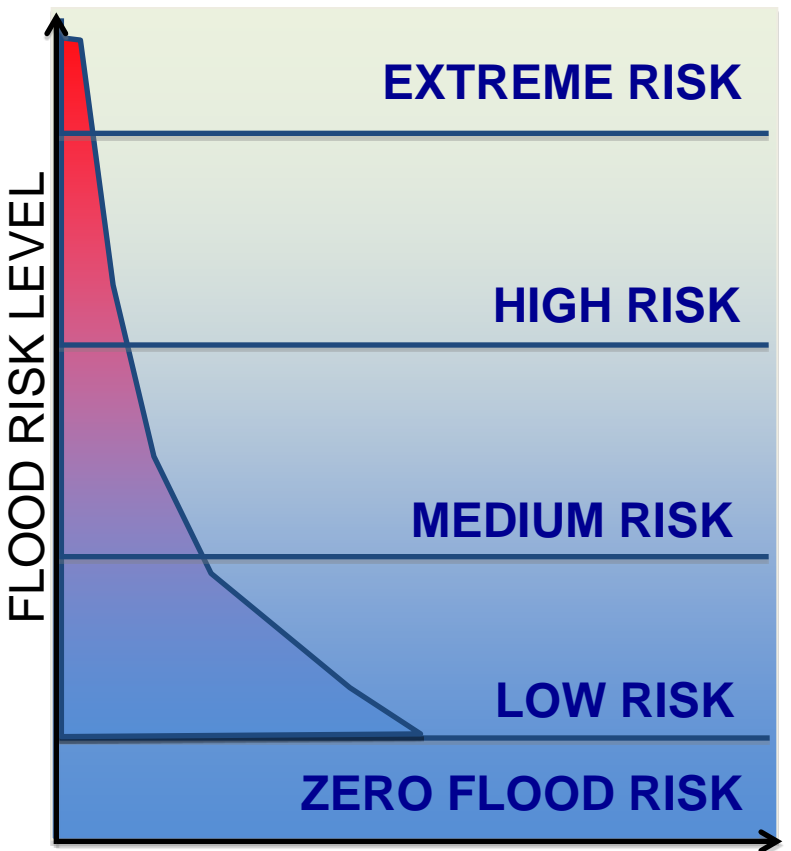
- Focusing solely on insurance as the solution disregards the fact that insurance is a risk management tool at the end of the risk chain
- Persistent and repeated flooding of communities will not be solved by an insurance scheme (public or private) – Eg, Charlton, Roma, Emerald
- One dimensional response to flood will only act to shift costs to taxpayers and policyholders and defer action to solve the true nature of the problem
- Challenge is to reduce the ongoing flood risk to as close to zero as possible. Mitigation lowers risks and reduces insurance premiums.



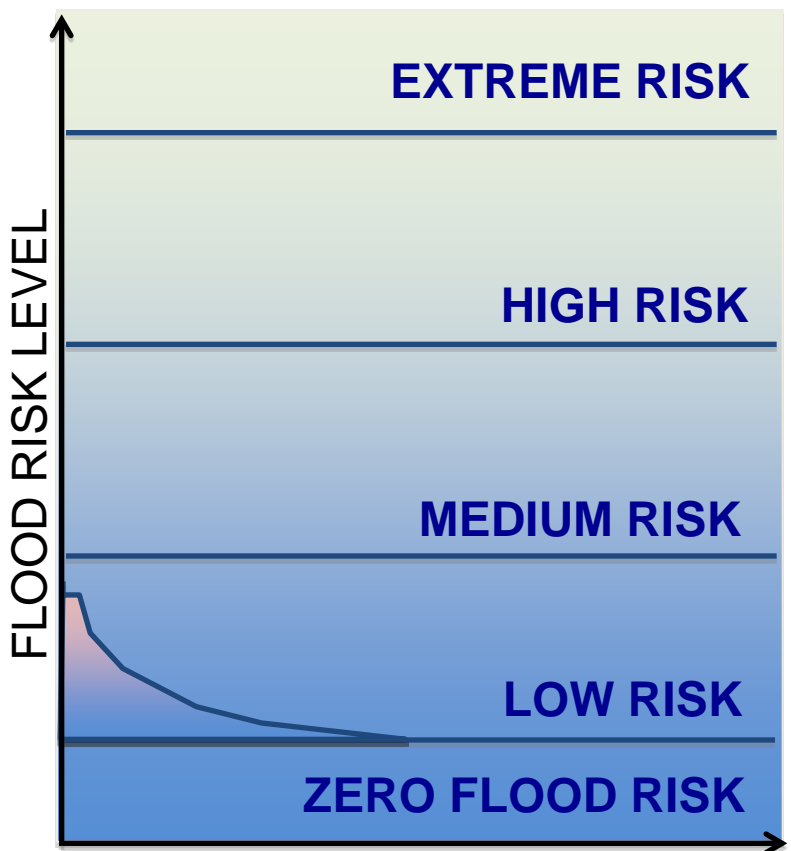


# The Real Challenge - Reduce Flood Damage

## Move from



## To





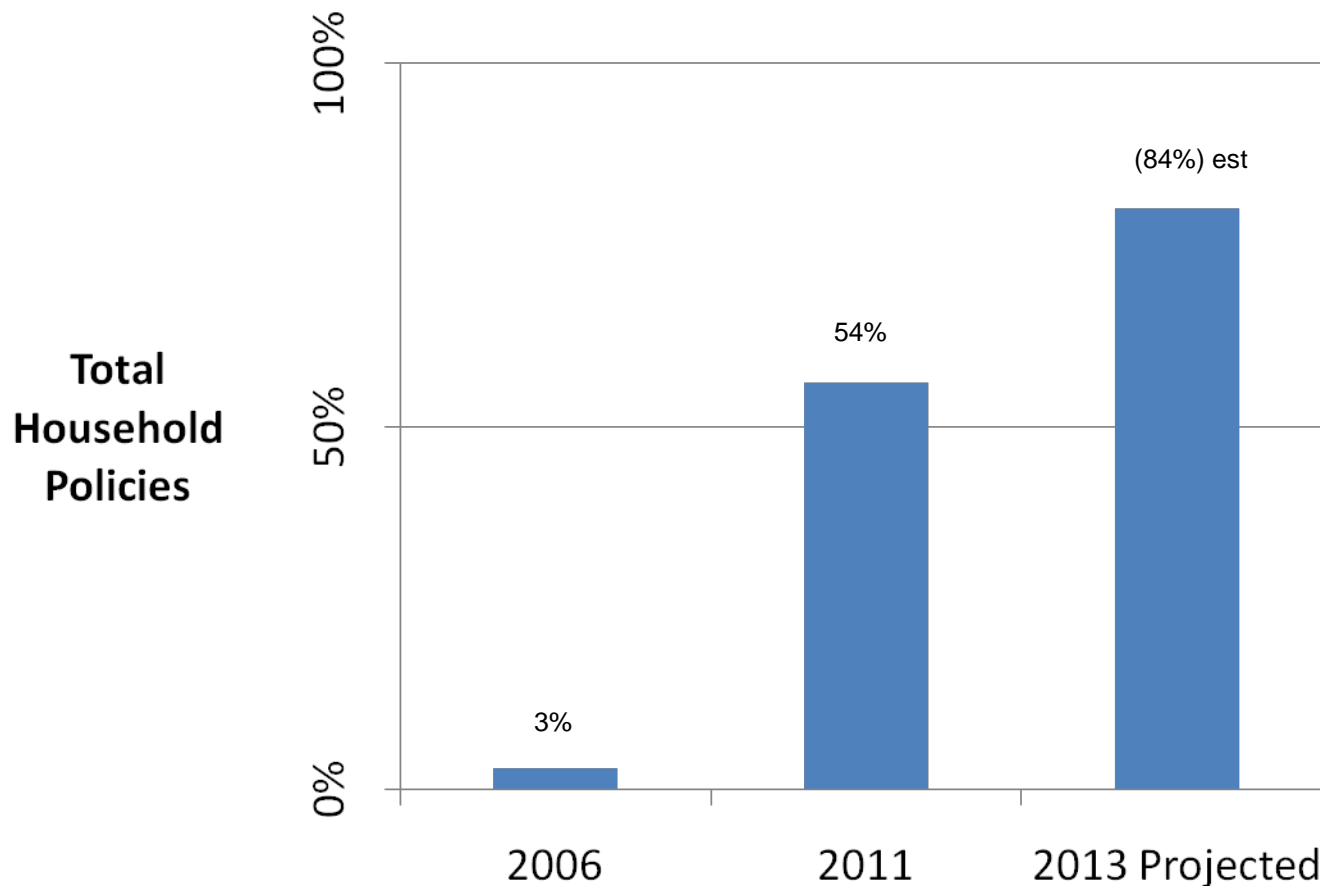
## Industry progress

- There is no market failure
- Expanding availability of flood insurance cover
- Improved disclosure through industry reform
  - Common definition of flood
  - Key facts statement
  - Point of sale advice
- Improved data coverage - NFID



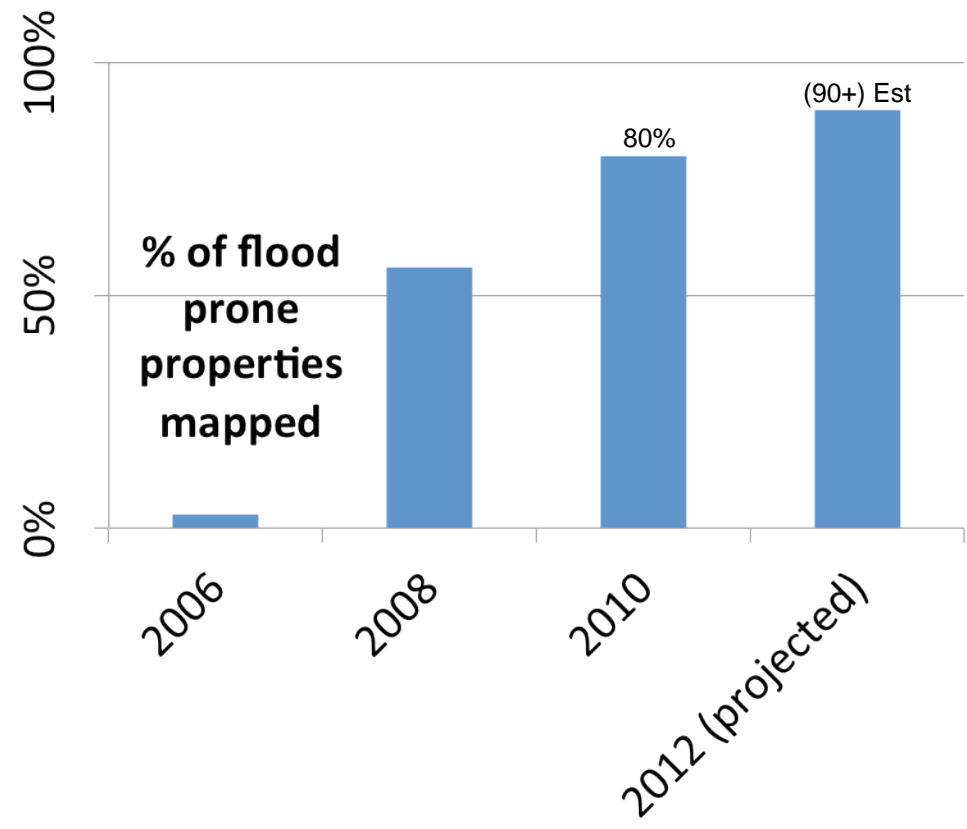
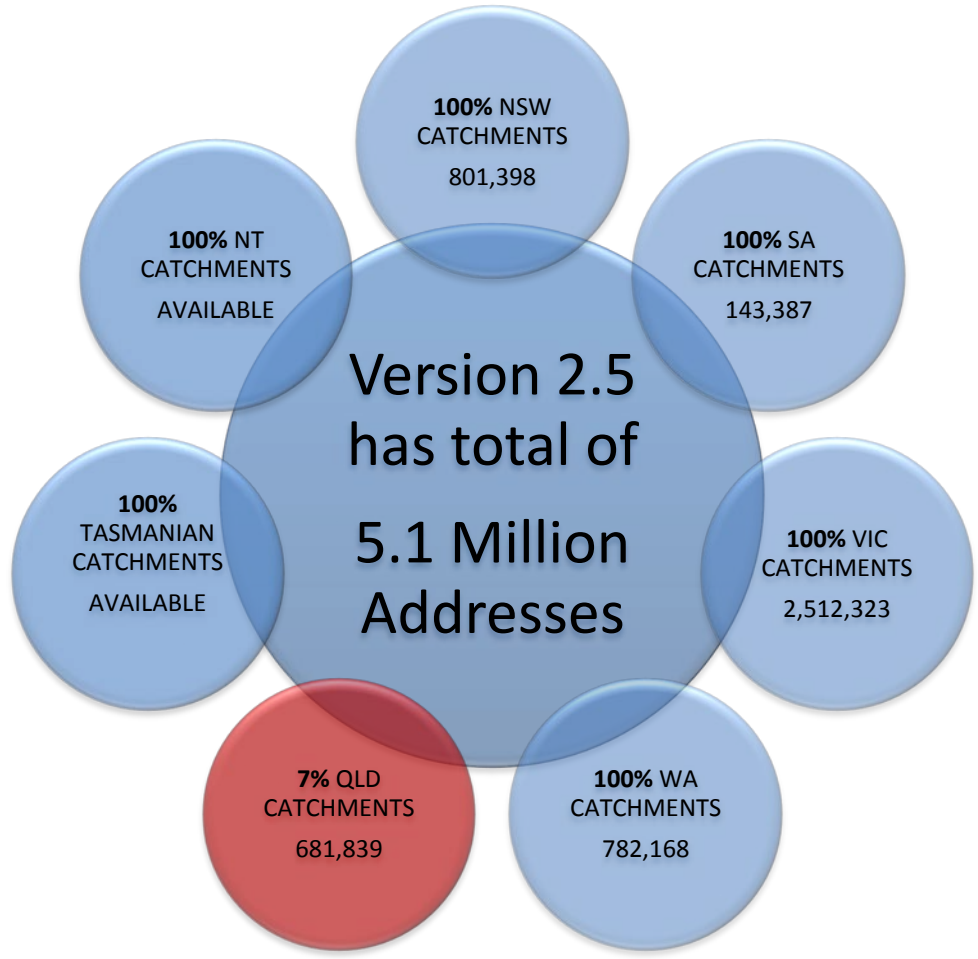
# Role of Insurance and progress to date?

- Increased availability of cover





# NFID: 80% of properties currently mapped

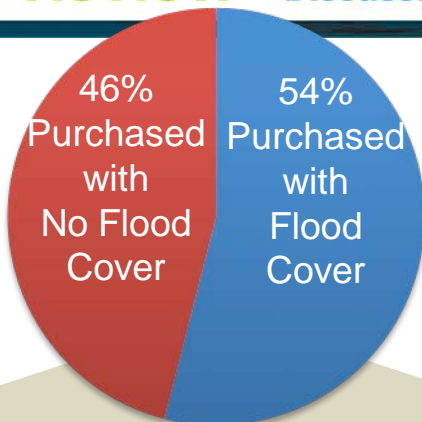




# Natural Disaster Insurance Review – Discussion of Options

6 July 2011 • Westin Hotel Sydney

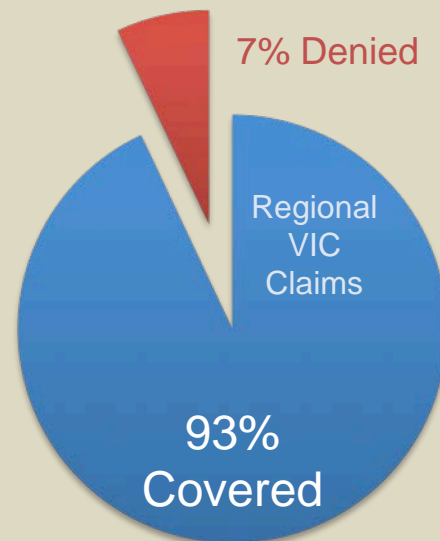
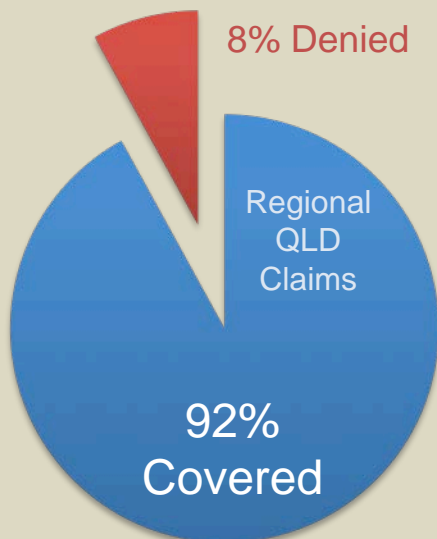
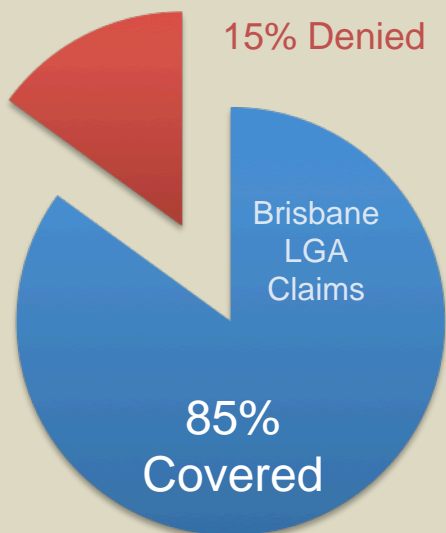
**People who know they are at risk: More inclined to buy the right cover**



Residential Building Policies Sold Nationally

## HOWEVER IN THE FLOOD ZONES

Claims evidence shows that Householders who know they face a risk are inclined to purchase appropriate cover



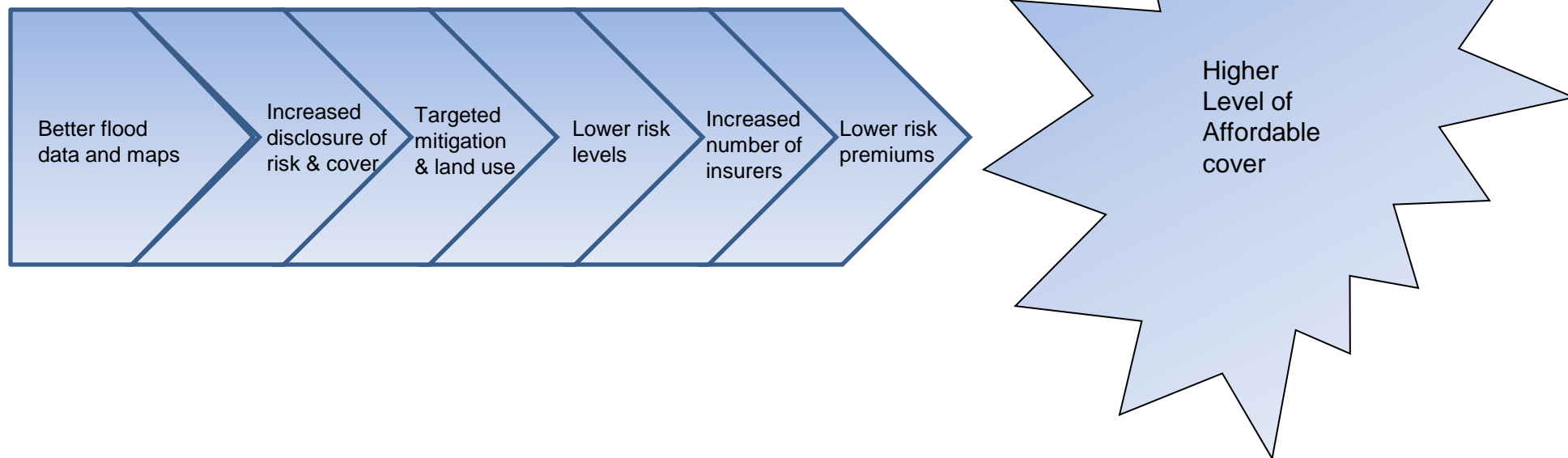
## Way forward:

### Mandatory cover & Cost increases are not the answer

- Doesn't deal with the real problem
  - Vast majority not at risk
  - No incentive to mitigate risk
  - No incentive to stop growth of at risk properties
- Increases costs to all
  - Expense of cover for extreme risks needs subsidy from taxpayers
  - Any additional costs adds to cost of living burden – another tax
  - Low appetite amongst those not at risk to cross subsidise
- Changes competitive landscape
  - Level of competition in household insurance may decline
  - Potential of increased concentration risk to remaining providers



# The way forward: Not status quo but a market based solution





## The unaffordability question

- There will be a residual of properties that are ‘*uninsurable*’ at affordable prices
- No government pool is necessary. Governments should consider a targeted direct rebate scheme or premium subsidy to assist those at high and extreme risks.
- Scheme should be contingent on appropriate risk management actions initiated to reduce the number of properties at risk who are eligible for rebates and support.
- Funding exists through current state taxes: \$4.6 bn in state taxes collected per annum from insurance policy holders

## Key factors for success

- Flood data and maps to build risk awareness and encourage higher market participation / competition
- Mitigation to address legacy issues: prevention better than recovery
- Mitigation delivers strong ROI
- Targeted subsidies to encourage improved risk management and protect the vulnerable



Mitigation Works – Prevention is better than being good at recovery



## Summary

- Flood is a persistent, expensive and complex problem
- Insurance is only a part of the solution (end of risk chain)
- Any additional costs imposed on insurance will add to cost of living burden
- Real challenge is to minimise the risks:
  - Mitigation improves insurance affordability and solves the community flood problem.
  - Subsidising current risk without mitigating means the problem will never be addressed
- A dynamic market based solution to flood is effective and will deliver the required outcomes.



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

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

## **Natural Disaster Insurance Review Issues paper – An Industry Perspective**

**Robert Whelan,  
Executive Director & CEO  
Insurance Council of Australia**

**SMS Questions 0402 293 251**