

11 November 2016

Mr Mike Blake
Review Investigator
Government Flood Review
GPO Box 308
HOBART TAS 7001

By email: brian.edmonds@ses.tas.gov.au

Dear Mr Blake,

SUBMISSION TO TASMANIAN GOVERNMENT FLOOD REVIEW

The Insurance Council of Australia (**ICA**) welcomes this opportunity to provide a submission to the Tasmanian Government's Flood Review.

The Insurance Response to June 2016 Flooding

The insured losses from the east coast low event that struck Tasmania, NSW, Queensland and Victoria, are currently estimated to be \$433 million, of which around \$45 million occurred in Tasmania. ICA collected data for the event indicates that less than 0.9% of household claims and less than 1.9% of business claims were denied by insurers.

Flood Insurance Availability in Tasmania

It is useful to note a number of points with regard to flood insurance in Australia, as a primer to being able to understand any potential community confusion. As significant flooding has not occurred in Tasmania since the introduction of flood insurance, it is understandable that some in the community may therefore not be familiar with developments nationally. In summary:

- There is a single national definition of flood for insurance purposes, prescribed by the *Insurance Contracts Act 1984* (Cth), that must be used by all insurers offering cover in Australia¹.
- Insurers for home and contents are not able to deviate from the standard definition for flood, creating their own terms to describe the event.
- Insurers are free to offer flood cover, or to exclude flood from a policy, provided they are using the standard definition for flood.

¹ 'flood' means the covering of normally dry land by water that has escaped or been released from the normal confines of any of the following: (a) a lake (whether or not it has been altered or modified); (b) a river (whether or not it has been altered or modified); (c) a creek (whether or not it has been altered or modified); (d) another natural watercourse (whether or not it has been altered or modified) (e) a reservoir; (f) a canal; (g) a dam – *Insurance Contracts Regulations 1985*

- Insurance policies are offered by insurers either with flood cover included as a standard inclusion; or with the ability to opt out of the flood cover component at the policyholders request; or excluding flood damage as a cause for claim in totality.
- Flood cover is available to 100% of Tasmanian residents, from multiple providers. There are no areas where cover is unavailable, from a selection of insurers.
- Premiums are risk-based, the higher the potential risk of a flood event, the higher the premium will be.
- The ICA estimates that 91.5% of insurance policies in Tasmania have been purchased by residents, with flood cover included.
- Where a policyholder elects to not purchase flood cover and where a flood is subsequently believed to have occurred, the insurer will typically employ an independent hydrologist to determine if the inundation occurred as a result of a flood (as defined) or due to another source of water damage that may be covered.
- In the rare circumstances where a policyholder's claim is denied, the policyholder can appeal the decision, ultimately seeking the decision to be overturned by the Financial Ombudsman Service.

Flood Mapping & Insurance Premiums as an Incentive

The ICA submits that effective flood risk management requires detailed flood mapping data, at a resolution sufficient to assess an individual properties exposure to flood. High quality (and publicly available) flood mapping allows:

- Individuals to understand what risks they face at their address and to prepare;
- Emergency services to plan how to support the community when the event occurs;
- Local governments to plan and implement mitigation to reduce the risk to the community; and
- Insurers to set a premium on the residual risk of damage occurring to a policyholder's property.

Nationally, the ICA routinely collects flood data from State and Local governments. This data is used by insurers to predict flood risk exposure to individual dwellings within the community and is critical to setting a premium that can accommodate the risk.

A benefit of detailed flood mapping is that insurance premiums for high risk properties can act as a price signal for home owners. If home owners have a high exposure to flood, then it follows that insurance premiums for that property will be significantly higher. This, in turn, provides an incentive for owners to mitigate their flood exposure in order to reduce their insurance premiums.

Unfortunately, the flood mapping data that the ICA holds for Tasmania is significantly less-complete and of lower quality than the data provided by any other jurisdiction nationally. A consequence of this lack of detailed data is that, for many policyholders, insurers will have significant levels of uncertainty regarding the precise flood risk, which is typically reflected in higher flood risk premiums.

The flood risk information collected by industry for Tasmania, shows the following breakdown of flood risks for Tasmania's 351,877 addresses:

- EXTREME FLOOD RISK 5%AEP: **564 addresses**, 0.16%
- HIGH FLOOD RISK 2%AEP: **201 addresses**, 0.06%
- MEDIUM FLOOD RISK 1%AEP: **690 addresses**, 0.2%
- LOW FLOOD RISK - PMF: **3,809 addresses**, 1.08%
- NO FLOOD RISK: **270,610 addresses**, 76.9%
- FLOOD EXPOSED SEVERITY UNKNOWN: **71,965 addresses**, 20.4%

Tasmania has a high proportion of addresses where a flood risk is likely to exist, but where flood mapping has not been carried out by government, or has not been released. Home owners at these addresses are likely to receive flood risk premiums that reflect this uncertainty, as the insurer believes flooding is possible but is not in a position to understand the severity and must act within a conservative prudential framework.

It follows that the ICA recommends urgent improvement and publication of flood data for Tasmania. The ICA would welcome an opportunity to discuss the benefits and detailed needs for improved flood mapping, with the Tasmanian government at the next appropriate opportunity.

Community awareness

The ICA would strongly support the implementation of a community awareness program aimed at educating the public on flood exposure and flood mitigation measures.

Following the June 2016 floods, many in the community claimed to be unaware of their property's exposure to flood and therefore may have been ill-equipped to make decisions regarding the most appropriate type of insurance cover to obtain. The ICA would welcome an opportunity to assist the Tasmanian Government on appropriate initiatives.

Flood Risk Reduction - Mitigation

The ICA strongly supports the construction of levees and other mitigation measures to reduce the risk of flood events in the future. Although the cost of levee construction may appear prohibitive, the ICA firmly believes increased expenditure on levees and other mitigation measures is far more cost effective than the likely loss and damage of future disasters, as well as the intangible human and emotional costs to the community.

The prime Tasmanian example of flood risk reduction is the success of the recently completed Launceston flood levee. An initiative that, in this event alone, prevented a potential \$20 - \$30 million in losses to the community.

Permanent flood mitigation works such as levees will, in many circumstances, significantly reduce individual home building insurance premiums. The ICA would welcome any opportunity to assist local governments that have significant flood exposures, to better understand the community benefits of implementing effective flood mitigation.



If you would like to discuss this submission in further detail, please contact Karl Sullivan, the ICA's General Manager Policy, Risk & Disaster Planning Directorate, on (02) 9253 5121 or via email at ksullivan@insurancecouncil.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to be "R. Whelan", with a long horizontal flourish extending to the right.

Robert Whelan
Executive Director and CEO