



**Assistant Treasurer
Minister for Financial Services and
Superannuation**



Attorney General

FIXING FLOOD INSURANCE

Every Australian seeking to purchase home and contents insurance will be offered flood cover using a common sense definition of 'flood' under proposals announced today by Assistant Treasurer Bill Shorten and Attorney General Robert McClelland.

The announcements are part of the Gillard Government's response to the 47 recommendations in the final *Natural Disaster Insurance Review (the Review)* report. The Review was commissioned to examine insurance for flood and other natural disasters following the 2010 and 2011 summer floods..

The Review made a range of recommendations encompassing flood risk management, insurers' claims handling and dispute resolution processes, and the provision of flood insurance.

"The devastating floods in Queensland, NSW and Victoria last summer showed how vital it is to get flood and other disaster insurance right. The Review's recommendations are a good place to start in mitigating the risk of disasters and making sure everyone has the appropriate insurance arrangements to set them on the path towards recovery after disaster strikes," Mr Shorten said.

Standard definition of 'flood'

"The Gillard Government will introduce a standard definition of 'flood' to ensure we don't have a repeat of what happened after last summer's floods, where people with insurance policies with one definition of 'flood' received compensation while people living next door, with a different policy and different definition, received nothing at all."

"Many families and individuals affected by the 2011 floods were not even aware their insurance did not cover flood. All policies that offer flood insurance will be required to contain the standard definition and this will end the confusion."

"The Government will release draft regulations about the standard definition for consultation by the end of the year:

Flood means the covering of normally dry land by water that has escaped or been released from the normal confines of:

A. any lake, or any river, creek or other natural watercourse, whether or not altered or modified; or

B. any reservoir, canal, or dam.

The standard definition of 'flood' will be used if the insurer offers flood cover in their home building, home contents, small business and strata title insurance policies.

Mandatory opt-out

The Government is also proposing that all insurers must offer flood cover as part of home building and home contents insurance policies, while giving consumers the opportunity to 'opt-out' of that cover.

Stakeholders will have the opportunity to comment on the proposal, following the release of a consultation paper today.

"This proposal will increase the availability of flood insurance across Australia, while improving transparency and choice for consumers," Mr Shorten said.

Flood modelling authority

The government will also commit substantial funds to the establishment of a flood modelling authority.

Mr McClelland said the Review highlighted the need to improve availability and consistency of flood risk information. Flood risk information plays an important role in emergency management, land use planning and environmental management.

"A flood risk information portal, hosted by Geoscience Australia, will be developed to provide a single access point to existing flood mapping data. The Commonwealth will drive this process in close consultation with State and Territory governments," Mr McClelland said.

"The portal will be complemented by the development of national guidelines, covering the collection, comparability and reporting of flood risk information. Once endorsed, these guidelines will contribute to improved data quality and consistency."

"These measures will improve access to data and lead to a more consistent approach across the nation. The cost of this measure is around \$12 million over the period 2012-13 to 2015-16."

One page key facts statement

The Gillard Government will also implement a requirement for insurers to provide their customers with a Key Facts Sheet for all home and home contents policies. The Key Fact Sheet will clearly set out, on a single page, all key information about the features of the policy. The Key Facts Sheet will complement the existing Product Disclosure Statement.

Further consultation on the content of the Key Facts Sheet will take place early next year. Prototypes of the Key Facts Sheet will also be subject to consumer testing prior to being finalised.

Reforms to the General Insurance Code of Practice and other recommendations

The Review made a number of recommendations for changes to the General Insurance Code of Practice to improve insurers' handling of claims and disputes relating to natural disasters.

The Government and insurance industry have already agreed to remove the provision that the Code doesn't apply during natural disasters and providing for time limits for the completion of expert reports such as hydrology reports.

"In the past, insurers didn't have to abide by the Code for claims relating to a natural disaster. That will no longer be the case and give the victims of natural disasters the same rights as general insurance consumers," Mr Shorten said.

Other measures recommended by the panel include a limit to the time taken by insurers to resolve claims and strengthened internal dispute resolution processes. The Government has started discussions with the industry about these changes.

The NDIR also made a series of recommendations in relation to the provision of affordable flood insurance to those at high risk of flood. This includes the creation of a reinsurance pool of funds that will enable insurers to provide discounted flood coverage to eligible high risk households.

These recommendations require detailed consideration by the Government. A process of consultation with relevant stakeholders will be undertaken, given the complexity of the recommended scheme and its potential financial implications for governments. This will include an issues paper to be released before the end of March 2012 to address governance issues.

Finally, the Assistant Treasurer and the Attorney-General take this opportunity to thank the three members of the Natural Disaster Insurance Review Panel, John Trowbridge, John Berrill and Jim Minto as well as the Australian Government Actuary, Peter Martin, and the secretariat that supported them.

The full list of recommendations and the Government's responses, together with the consultation paper, can be downloaded from the Treasury website (www.treasury.gov.au), which also provides instructions on how to make a submission and the deadline for doing so.

ENDS

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