



2 June 2011

EMBARGO:

NATURAL DISASTER INSURANCE REVIEW — RELEASE OF ISSUES PAPER

The Natural Disaster Insurance Review Panel today released an Issues Paper inviting interested people and organisations to make submissions to the Review.

The Review was announced on 4 March 2011 by the Assistant Treasurer, the Hon Bill Shorten MP, following the floods and other extreme weather events of the past summer. The Review Panel was asked to examine the availability and affordability of insurance with particular emphasis on flood and other natural disasters.

In releasing the paper, the Chairman of the Review, Mr John Trowbridge, said: 'The events of last summer have highlighted the problems posed by floods for both householders and insurers. Improving access to flood cover for home insurance has emerged as the key issue facing the Review Panel.'

In the wake of the floods, it was clear that many of the people affected had home insurance that did not cover them for flood. Some people did not take out flood cover thinking that their homes were not likely to flood. Others were unaware that they were not covered for flood or found the detail of their insurance policies confusing. This has not only left them without insurance cover, it has also led to disputes and lengthy delays with insurers about whether the damage to their home was caused by storm, for which they automatically had cover under their home insurance policy, or flood.

The Issues Paper identifies two alternative models of flood insurance for the future: that flood cover be provided automatically as part of home insurance, just as it provides cover automatically for bushfire and storm; or that flood cover be provided automatically but that homeowners be able to 'opt out' and have home insurance that includes cover for other causes of damage but not flood. The other main possibility is to retain the status quo whereby insurers remain free to offer full, partial or nil flood cover for home insurance and homeowners are free to decide whether or not to include flood cover in their home insurance policies.

'If flood cover were included automatically as part of home insurance, all disputes about whether water damage is caused by flood or storm would be eliminated. Flood cover would then be in place at the same level as fire and storm cover for every insured home. Some homeowners, however, would face significant increases in insurance premiums under such a model unless these homeowners were given some form of assistance to enable them to continue to insure their homes. Such an arrangement, in benefiting the homeowners themselves, would also benefit the broader community. Insurance helps both individuals and communities recover from disasters, it encourages mitigation by the homeowner which also benefits the community, and reduces the impost on charitable donors or taxpayers.'

The Issues Paper considers a model to encourage the take-up of flood insurance through a system of discounts to protect eligible homeowners in flood-prone areas from major increases in their home insurance premiums. The discounts would need to be funded and, if possible, to operate in such a way as

to encourage homeowners, property developers, councils, insurers and governments all to engage in flood risk mitigation.

‘Although the insurance industry is working to make flood cover more widely available, the affordability problem in flood-prone areas will not be solved by the insurance industry on its own’ Mr Trowbridge said. ‘A key issue for the Review Panel is whether a system of discounts and funding could be instituted that would enable automatic flood cover to be offered without compromising efforts to minimise flood risk or the capacity of the insurance industry to meet the costs of flood claims.’

The alternative model, Automatic Flood Cover with Opt Out, would clearly increase the number of homeowners with flood cover but, even with the same system of discounts and funding as for the Automatic Flood Cover model, would still leave some insured homes without flood cover.

‘We have tried to explain these two models in sufficient detail for experts and consumers alike to be able to offer their considered views on the relative merits of the two models. We are keen to hear from all interested parties on their assessments of these two models. But I stress that they are concepts only and not yet fully developed. The Review Panel has not yet taken a position or a view on any of the matters raised in the Issues Paper pending submissions now being invited on the Paper.’

The Issues Paper also considers whether any new arrangements for flood insurance for homes might be extended to contents, strata title buildings and small business.

Other matters considered in the Paper that have been highlighted by recent natural disasters include non-insurance and under-insurance, consumer awareness and insurance dispute resolution, flood risk measurement and mitigation, and some aspects of government funding of natural disaster relief and recovery.

To assist those making submissions, the Issues Paper sets out a number of questions that highlight issues of particular interest to the Review Panel. However, submissions are welcome on any relevant issues.

Those wishing to make submissions should send them to NDIR@treasury.gov.au or mail a printed copy to:

Natural Disaster Insurance Review
c/- The Treasury
Langton Crescent
PARKES ACT 2600

The closing date for submissions is 14 July 2011.

Click on this link www.ndir.gov.au to access the website.

The Review Panel will consider all submissions in preparing its report and recommendations for the Assistant Treasurer by 30 September 2011.

The Natural Disaster Insurance Review Panel

Mr John Trowbridge (Chairman)
Mr John Berrill
Mr Jim Minto