

NDIR Submission from David Sargeant

Dear Sirs,

Following the Brisbane and Victorian floods I wrote to the Treasurer and Assistant Treasurer suggesting that the government consider introducing a flood insurance scheme similar to the New Zealand Earthquake Commission model to cover future flood events in Australia. I was CEO of the Insurance Council of New Zealand at the time the current EQC arrangements were introduced and work closely with Treasury officials on its implementation.

I have now received a reply from the Assistant Treasurer suggesting I contact the Review. I note on the NDIR website that public submissions will be invited and have attached a copy of my original letter for your information.

Obviously if a national scheme similar to the EQC was to be considered there would have to be adjustments to account for the different nature of the damage and loss arising from a flood compared to an earthquake. However a community rated model such as the EQC would overcome many of the issues the public and insurers face when considering flood insurance.

Finally I would note that, while the recent consultation paper "Reforming flood insurance" appears to present a workable definition of flood, it will not address the critical issue of the availability of affordable flood insurance. While the Insurance Council supported this and called for greater flood mapping as part of the solution there is no guarantee that insurers will step up to the plate and provide cover. In fact there is a risk of the opposite with flood prone areas being ring fenced and insurers simply avoiding those areas. Experience from the United Kingdom suggests this is a possibility.

A long term robust solution to this issue requires a combination of actions including;

- proper flood mapping,
- flood mitigation works,
- greater public awareness of the issues and more resilient communities,
- a review of planning and land use laws, and
- the availability of affordable flood insurance.

Experience from New Zealand, where flood is a significant ongoing risk for many regions, private insurers include flood insurance as part of the cover. This suggests that with the right combination of public and private initiatives workable solutions can be found. This wasn't always the case and it wasn't until the Abbotsford landslip in 1979 that the insurance industry and government were prompted to work together to find a solution.

I would be happy to discuss this with the Review if required.

Yours sincerely

David Sargeant

Original Letter referenced in the Submission

January 27, 2011

Hon Wayne Swan MP
Treasurer
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600

Dear Mr Swan,

Re Queensland, New South Wales and Victorian Floods – A possible way forward

As a former Chief Executive Officer of the Insurance Council of New Zealand (ICNZ), I have been following the debate/discussion regarding the availability of flood insurance and the problems people are now facing when trying to establish if their losses are covered. This debate follows every major flood event in Australia and is one I have followed for over 20 years.

I have also noted that you have commented that the availability of flood insurance needs to be reviewed and that the insurance industry needs to do more for its customers to remove the uncertainty around this. I believe the industry has been genuine in its efforts to find a solution but the issue is complex and it is highly unlikely that the industry will, by itself, ever be able to develop a uniform scheme that satisfies public expectations. I believe the resolution of this requires a mix of public and private initiatives to find a long term and robust flood insurance scheme.

I suggest the Government have a close look at the New Zealand Earthquake Commission (EQC) as a model for providing flood insurance in Australia. This may have been previously considered and dismissed but the performance of the EQC in the recent Christchurch earthquake demonstrates how a mix of public and private insurance can greatly assist the reconstruction of communities following a major natural catastrophe.

As CEO of the ICNZ at the time the current earthquake insurance model was established I was closely involved in the policy development associated with this. Initially the insurers were totally opposed to what the Lange/Douglas government proposed, but these objections were able to be resolved and a very robust solution evolved.

The essential elements of the EQC are;

- All personal lines home and contents insurance policies automatically include earthquake cover for home and contents,
- Cover is up to \$NZ100,000 for homes and \$NZ20,000 for contents at a rate of .05cents/\$100 sum insured plus GST. A minimum excess of \$200.00 or 1% applies to all claims,
- Insureds are able to purchase top up cover for house and contents from their insurance company at market rates to cover a possible total loss.
- Businesses are not covered by the EQC and purchase cover from their insurers.

The advantages of similar scheme in Australia include;

- A standardised definition of flood. This has been a major stumbling block for local insurers and a recent effort was rejected by the ACCC and consumer groups,
- A uniform community rated scheme means all policy holders contribute thereby spreading the cost across all insureds,

- Over time it is possible to build a substantial pool supported by reinsurance purchased from global markets (both the EQC and the local Australian Reinsurance Pool Corporation (ARPC) purchase reinsurance),
- Insurers have a level of protection, which allows them to provide top up cover as they can better quantify exposures and price the risk,
- A flood insurance agency would be in a strong position to commission research into flood and flood exposed regions. A problem for the private insurers has been gaining access to flood map models prepared by local governments. Up to now some councils have been reluctant to make this information available. A government agency should have the power to access this information,
- The EQC is proactive in providing advice to insureds about how to improve the safety of their property and make it safe against earthquake. A similar agency in Australia could do the same to mitigate against flood,
- A community rated scheme cannot be claimed to be a new tax as insureds are being covered for flood. People might argue that their place will never flood and while that may be true in some situations, people in Christchurch never expected an earthquake, their greatest exposure has long been considered to be flood, and
- The ARPC provides a ready structure for the establishment of a flood insurance agency.

A recent editorial in the Australian Financial Review dismissed the New Zealand earthquake model, arguing in part that the EQC was put in place because of market failure. This was not the reason why the EQC was originally established in 1945. In part it was set up to include war damage immediately following WW2. The current dilemma facing governments, and policy holders is a prime example of market failure. Insurers have been trying to find a solution for decades - perhaps a mix of public and private insurance is a solution.

I would be happy to discuss this further with you or your advisers.

Kind regards

Yours sincerely

David Sargeant

cc Mr Bill Shorten
Assistant Treasurer