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## Flood mitigation is best protection

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Better mitigation would not only protect many more of the almost 4 per cent of Queenslanders and 2 per cent of Australians who live in areas with a high risk of flood, it would also strike at the heart of insurance affordability.



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# Opinion: Flood mitigation is best protection

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By Rob Whelan, Chief Executive, Insurance Council of Australia

For the past five days, large regions of Queensland and northern New South Wales have been hit with floods, with more to come. Some towns have been inundated for the second or even third time in as many years.

As of Wednesday night, the general insurance industry had received nearly 25,000 claims from policyholders in Queensland, with estimated losses of \$200 million, and these numbers are growing rapidly. Insurers are working closely with authorities to help their policyholders, and assessors are already entering affected towns to expedite the process.

The good news is the impact is unlikely to approach that of 2011, when Queensland's floods cost many lives, left thousands of people homeless and cost insurers \$2.4 billion. However, the news is less positive for households without insurance.

Following the 2011 disasters, insurers worked with the Federal Government to improve access to flood insurance and establish a standard definition of flood, which the industry had sought since 2008. Now, all owners of residential properties can purchase flood cover, and more than 83 per cent of home and contents policies cover flood, compared with only 3 per cent in 2006 and 50 per cent in 2010-11. The availability and the accuracy of flood mapping continues to improve.

Australia's insurers operate in a highly competitive market and consumers can choose from policies that include flood as a mandatory condition, policies that include flood but offer an opt-out, and policies that do not offer flood cover at all.

Despite the availability of flood cover, insurers are painfully aware many victims of the 2013 floods will not have been insured, with some citing the high cost of insurance as the primary reason.

The contrast between the way floods affected Queensland and NSW this week is stark. Many towns in northern NSW were protected by permanent levees, which prevented flooding and potentially a huge recovery bill. Unprotected towns in Queensland suffered widespread damage, with the recovery and restoration bill for governments likely to run into billions of dollars.

The facts are plain. Insurers price and manage risk, and properties in frequently inundated areas of Australia pay premiums that reflect that risk.

Prudent investment by all levels of government (and particularly local governments) in appropriate permanent, well-designed physical mitigation infrastructure, such as levees and flood barrages, is urgent if the damage toll from floods is to be reduced. A relatively small investment, typically \$15 million to build a levee around a mid-size town, may be recouped 100-fold over the life of the levee.

Better mitigation would not only protect many more of the almost 4 per cent of Queenslanders and 2 per cent of Australians who live in areas with a high risk of flood, it would also strike at the heart of insurance affordability. Where towns are protected, premiums for those insuring inside the levee are often 60 to 70 per cent lower than if the levee had not been constructed. Mitigation has a direct and powerful influence on premiums.

Spending on mitigation is quite simply insufficient. The Federal Government contributes \$30 million each year for national mitigation projects, through its National Partnership on Natural Disaster Resilience, and each state has a modest allotment of funds. However, much more needs to be spent on mitigation if communities are to be protected and issues of affordability are to be addressed, though only governments can quantify how much is needed. Natural disasters can cost governments hundreds of millions of dollars. It makes more sense to reduce the impact of known exposures to floods now by spending a relatively modest sum than to strip the coffers for every catastrophe.

The Insurance Council is very pleased that the Queensland Government has taken positive steps in this area, with a \$40 million mitigation allocation in the last Budget and a commitment yesterday by Premier Campbell Newman to do his “darndest” to build flood protection levees for flood-prone towns. Insurers look forward to assisting the Premier to achieve this goal.

Australia’s legacy of building communities in areas exposed to extreme weather, whether floods, bushfires or cyclones, must now be handled much more prudently, with greater attention paid to appropriate land-use planning. We also need building and planning codes that ensure new developments are above a one-in-100 year flood event.

Further, mitigation is just one of several remedies to the issue of affordability. Removal of state stamp duties on insurance premiums would immediately cut premiums in every state – a reform that is long overdue. At present, stamp duties range from 7.5 per cent in Queensland to 11.5 per cent in South Australia, with only the ACT Government having committed to phasing out its duties over four years.

Fortunately, after many years of lobbying by the ICA, the Victorian Government's Fire Services Levy will be removed from policies as of July 1, which will see premiums fall sharply in that state. The ICA is also encouraged that the NSW Government is exploring a similar measure for the Emergency Services Levy it applies to insurance premiums.

The general insurance industry urges all levels of government to work collaboratively to protect communities and help ensure they remain viable for generations to come. And by doing this properly, insurance customers will also reap strong benefits.