



Insurance Council
of Australia

Insurance Catastrophe Resilience Report: 2020-21



Acknowledgements

Thank you to Insurance Council of Australia members for their support not just of this project, but for their work in assisting the thousands of Australians impacted by natural disasters each year.

Thank you to the stakeholders whose contributions help improve and refine the work of the Insurance Council and insurers in responding to natural disasters.

Thank you to policymakers – both elected and agency officials – for their support of the insurance sector.

Thank you to the millions of insurance customers around Australia who put their trust in their insurer to support them in their time of need or crisis.

Finally, thank you to the thousands of men and women, many of them volunteers, who make up our emergency services and first responders, every year putting themselves in harm's way to protect the lives, property, and livelihoods of their fellow Australians.

This report was produced on the lands of the Gadigal people of the Eora Nation.

Catastrophe numbering

Insurance Catastrophes are numbered using the year and order in which they occur. As the Halloween Hailstorm was the fourth natural disaster declared an Insurance Catastrophe in 2020 it is known as Cat 204, the Perth Hills bushfire was the first natural disaster for 2021 so is known as Cat 211, and so on.

Climate Change

The Insurance Council recognises the impact of climate change on the insurance industry and those it insures.

The Insurance Council accepts the international consensus presented by the IPCC and supports the goals of the Paris Agreement.

The Insurance Council is a foundation member of the UN Principles for Sustainable Insurance and recognises its important work in supporting global understanding of the contribution insurers can make to manage the physical, transition and liability risks relating to climate change.

The Insurance Council recognises the impact climate change is having on the frequency and severity of major weather events and the affordability and availability of insurance in Australia.

The Insurance Council has an important role to play in supporting our members' transition to Net Zero by 2050 in the most appropriate way for their business, while at the same time advocating for continued investment in building a more resilient Australia.

The data contained in this report was current as of August 2021. For up-to-date Catastrophe data please go to:

insurancecouncil.com.au/DataHub

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Foreword

Late last year the Insurance Council set out its new purpose to be the voice for a resilient Australia. In the short time since, resilience has become even more salient as a policy goal as communities, policymakers, NGOs, insurers and other business sectors unite on the urgent need to improve the resilience of Australian communities.

The ICA's Insurance Catastrophe Resilience Report: 2020-21 contributes to this discussion by clearly outlining the significant impact of natural disasters on communities across four states over an eight-month period. Importantly, this report also articulates the policy responses required by governments and the operational adjustments required by the insurance sector to better meet the challenge of natural disasters in the future.

In 2013, the Australian Business Roundtable for Disaster Resilience and Safer Communities White Paper found that targeted investment of \$250 million a year towards resilience measures would generate potential budget savings of \$12.2 billion for all levels of government and reduce natural disaster costs by more than 50 percent by 2050.

In a more recent report, the same group estimated the total economic cost of natural disasters would average \$39 billion a year by 2050 without substantial investment in mitigation.

The Insurance Council has long supported the call for all levels of government to increase investment in mitigation and resilience efforts.

The 2021-22 Federal Budget provided \$1.2 billion over five years to improve Australia's capability to prepare for, respond to, and recover from natural disasters, and this was undoubtedly good news to be welcomed. The recent commitment to establishing a reinsurance pool for northern Australian cyclone risk also shows the Government understands the scale of the problem in one of the regions most exposed to natural disaster risk.

Some states have also begun to step up their investment in this area – most notably additional resilience funding in the 2021-22 New South Wales and Victorian state budgets – while others, sadly, have gone backwards. State taxes and levies also continue to discourage adequate insurance coverage.

As the Insurance Catastrophe Resilience Report makes clear, the impact of natural disasters on insurers' customers has a very real cost that is both financial and emotional. Recovery from any natural disaster takes money, time and energy; we need to do everything we possibly can to reduce the outlay of these precious resources for the benefit of policyholders and the community.

Sue Houghton
President



Introduction

The general insurance industry is uniquely placed to understand the impact of natural disasters on Australian communities. We are there as soon as the flood waters recede or the fires are extinguished, providing emergency support and helping our customers take the first important steps to getting their lives back on track.

Australian insurers write 43 million business and household policies each year and pay out more than \$166 million in claims every working day. Insurance is a key component of any economy, but especially in a country like Australia where natural disasters are a regular reminder of the challenges we face to protect our communities, assets and our livelihoods.

The last three years have driven home just how devastating natural disasters can be. Insurers have paid out more than \$8.9 billion in natural disaster claims over that period, with more than \$6.1 billion paid out since the 2019-20 bushfires.

When significant natural disasters strike, the Insurance Council declares an Insurance Catastrophe, which prioritises claims from affected policyholders, directs urgent assistance to those worst affected, mobilises personnel to work with local agencies and policyholders, and puts disaster response specialists on the ground to assist customers with claims and assessments. Unfortunately this response over the past 12 months has been severely hampered by the ongoing impact of state border closures and an exodus of skilled workers from Australia due to the COVID pandemic.

An Insurance Catastrophe declaration also centralises the reporting and recording of insurers' data from that event. The ICA's Insurance Catastrophe Resilience Report: 2020-21 brings together insurers' data, experiences, and lessons from the last five declared Insurance Catastrophes, occurring between October 2020 and June 2021, as well as providing an update on recovery efforts following the devastating Black Summer of 2019-20.

Insurers not only have a unique view of disaster data, we also have a unique understanding of the solutions. Because it's not enough to just look back – we need to look forward and consider what measures we can put in place together to mitigate the impact of future events.

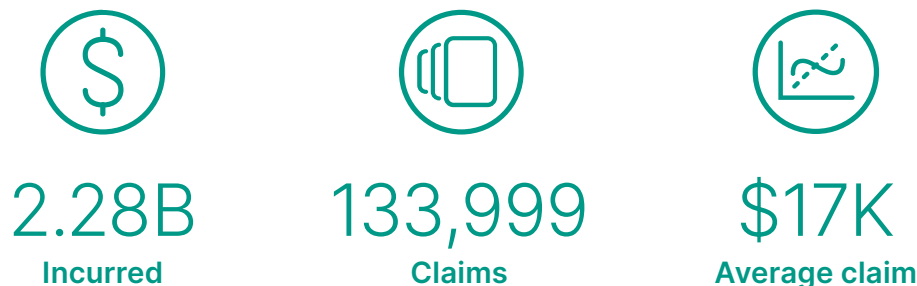
The Insurance Council has long held the position that the only way to effect lasting improvements to natural disaster exposure in Australia is by increasing funding for public and private mitigation projects, improving building standards and quality, and making informed land use planning decisions.

These changes won't happen without effective advocacy. By setting out the impacts of recent natural disasters, it is our intention that the Insurance Catastrophe Resilience Report will become an important contributor to the policies and practices that need to be implemented to lessen their impact.

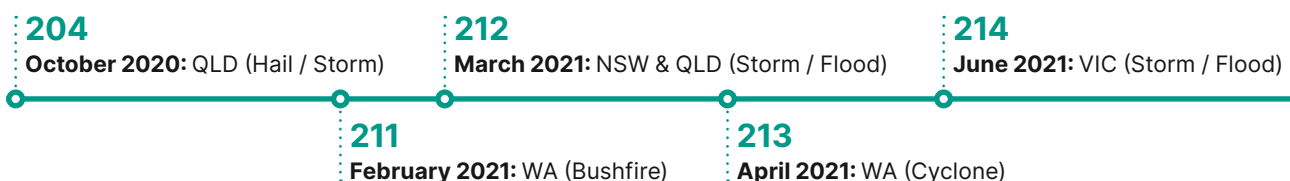
A stylized, handwritten signature in black ink, appearing to read 'Andrew Hall'.

Andrew Hall
CEO and Executive Director

2020-21 Insurance Catastrophe overview



Timeline:



While the 2020-21 natural disaster season did not match the ferocity and wide-scale devastation of the previous Black Summer, for affected communities it was just as shattering as livelihoods, property, belongings, and lives were lost to cyclone, storm, flood, hail, and bushfire.

Halloween is known for spectres and skeletons, but for residents in and around the area of Springfield Lakes in Queensland’s south-east it was horror of a different kind as cricket ball-sized hailstones rained down on their community on the afternoon of 31 October 2020.

The Halloween Hailstorm lasted just minutes but left more than \$1 billion in damage, most significantly to motor vehicles, roofs, skylights and solar panels, and interior damage to a significant number of homes.

An Insurance Catastrophe was declared the next day, however state border restrictions imposed because of the COVID-19 pandemic meant that insurers were delayed in getting trades and repairers to homes once the damage had been assessed.

In early March the Insurance Council hosted a community forum and two days of one-on-one consultations in Springfield Lakes for local policyholders affected by the event. Insurers and the Insurance Council

returned to the area in June for additional one-on-one consultations with customers, providing ongoing help with their insurance claims.

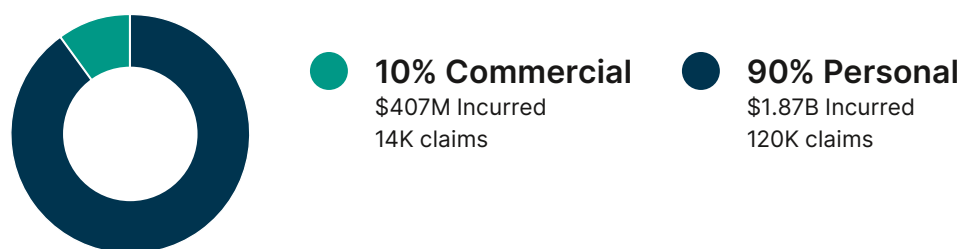
A wet winter meant the east coast of Australia was thankfully spared a repeat of the horrific bushfires of the previous summer, however it was the west coast’s turn to face the flames when fire broke out on 1 February 2021 near the town of Wooroloo on Perth’s outskirts.

The hilly, semi-rural area was soon ablaze, with thousands of residents forced to evacuate from surrounding communities as 86 homes and numerous farm structures were destroyed and almost 11,000 hectares burnt.

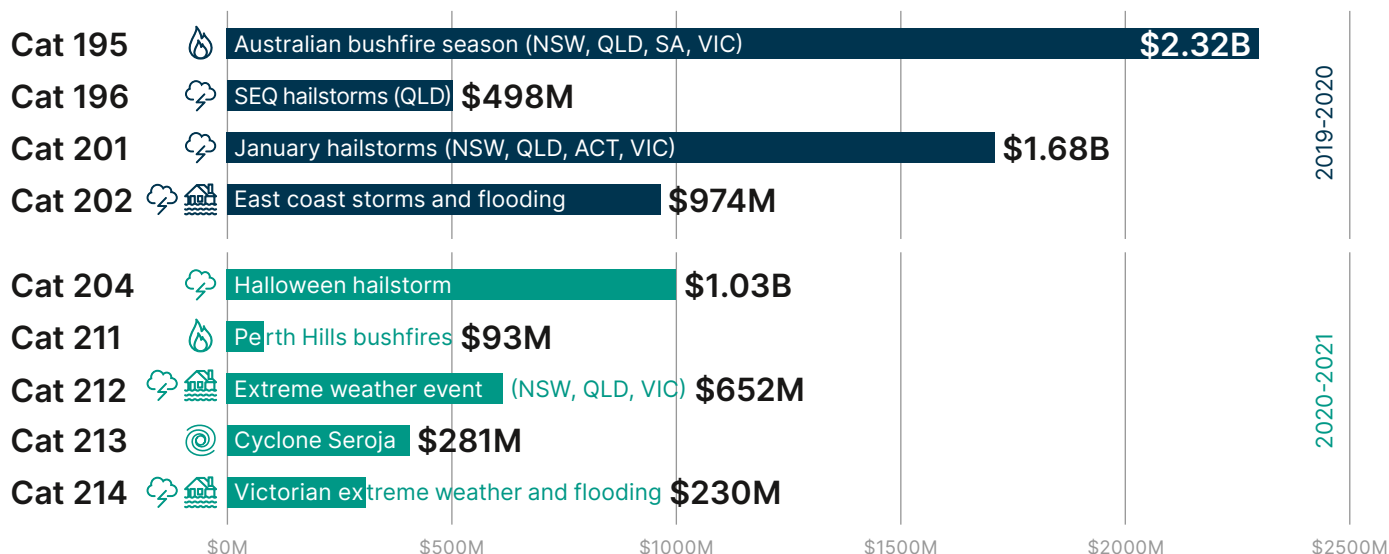
An Insurance Catastrophe for the Perth Hills bushfire was declared on 5 February 2021 following the deployment of Insurance Council personnel to Perth earlier that week to meet with government agencies, emergency services, and impacted property and business owners.

A single, coordinated clean-up program jointly funded by the State and Commonwealth governments meant that all affected property owners were treated equally regardless of their insurance cover, and savings by insurers could be passed on to policyholders to maximise the funds available for rebuilding.

2020-21 Catastrophe claims



Loss incurred by event



Following five days of torrential rain over an area from the New South Wales south coast to Queensland's Gold Coast, an Insurance Catastrophe was declared on 22 March 2021 for New South Wales, with affected areas of south-east Queensland added the following day. Both declarations were effective from 16 March, meaning the measures in place under the declaration were available to those impacted from that date.

Lasting nine days, the extreme weather was the result of a low-pressure system off north-west Australia and a high-pressure system in the Tasman Sea pushing moist tropical air into eastern Australia.

According to the Bureau of Meteorology coastal New South Wales experienced its wettest week since records began in 1900.

The rain and flooding was widespread, but the most significant impacts were felt in the mid-north coast towns of Port Macquarie, Kempsey, Laurieton, and Taree, and west of Sydney around Penrith and in the Hawkesbury-Nepean valley. Some impacted areas had also been hit by the previous year's devastating bushfires, and tragically there were five fatalities linked to this extreme weather.

The third Insurance Catastrophe for 2021 was declared on 14 April after Tropical Cyclone Seroja made landfall on

the West Australian coast, hitting the coastal town of Kalbarri and the inland community of Northampton.

Seroja hit a region not normally affected by cyclones, and because buildings and infrastructure were not built to withstand an event of this kind the impact was severe, destroying or damaging homes, businesses, telecommunications, and road and electricity infrastructure across several communities.

The towns' remoteness, the shortage of trades, and COVID-related border restrictions have all compounded to slow down the recovery process for impacted policyholders. Tragically, Seroja killed more than 100 people in Indonesia and Timor Leste, but no fatalities were suffered in Australia.

In mid-June 2021 parts of Victoria were slammed by storms with winds of more than 100 kilometres per hour and, in some areas, rainfall of more than 200 millimetres in just 24 hours. The impact of the flooding was felt most significantly in Gippsland around Traralgon and in the Yarra Ranges, however the Catastrophe Declaration made on 13 June covered all claims related to the event.

Sadly, two people lost their lives as a result of the event, and floodwaters left some communities inaccessible for days.

Cat 203 was declared for the COVID pandemic in March 2020

Cat 204: Halloween hailstorm



\$1.03B

Incurred



43,210

Claims



\$24K

Average claim

1 day

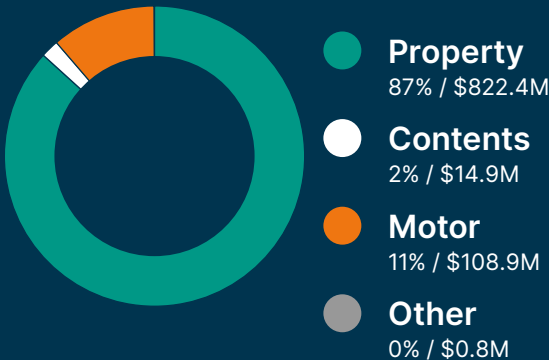
Until insurance
catastrophe was
declared

4

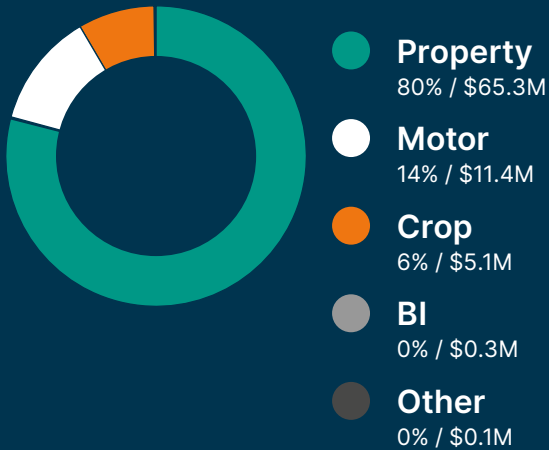
Community
meetings

Insurers on
ground on day
of event

Personal claims
\$947M



Commercial claims
\$82.1M





On the morning of Saturday 31 October 2021, the Queensland State Disaster Coordination Centre and the Bureau of Meteorology issued urgent warnings for possible severe thunderstorms and hail later that day for south-east Queensland. Given the number of residents within the projected impact area, the Insurance Council notified insurers and requested resources be stood up to support the event and the potential high number of claims.

That afternoon successive severe thunderstorms impacted Greater Brisbane with both large and giant hailstones reported across a wide area. The suburb of Springfield Lakes in the Ipswich local government area was significantly impacted, with most homes experiencing moderate to significant damage.

Industry response

Immediately following the hailstorms, insurers experienced a dramatic and sustained increase in phone calls from residents lodging claims, however additional resources had already been brought online to respond.

The Insurance Council quickly declared a Catastrophe and deployed a disaster specialist to the Springfield Lakes region, supported by insurer specialists and assessors. Insurers established a hub in the community which helped residents lodge claims and provided general insurance recovery information. The Insurance Council also ran a media campaign

in the affected regions warning residents of 'disaster chasers' that appear following disasters and often extort residents for insurance funds.

Insurers continue to support the residents with more than 80 percent of claims now finalised. Many more home repairs are in the final stages of completion. The Insurance Council has also run two successful community consultations in the worst affected region, as well as continuing to work with the Ipswich City Council's Halloween Hail Taskforce.

Issues in recovery

Unfortunately, the community's recovery from this disaster has been delayed by issues beyond the insurance industry's control. The limited number of available trades in Queensland, coupled with the Federal Government's Home Builder Scheme, has caused a scarcity of builders available to conduct necessary repairs.

This has been compounded by Queensland's licensing requirements which has prevented insurers from supplementing the limited local workforce with interstate trades. Mutual licensing recognition of builders and trades between states and territories would address this issue by utilising a national workforce to support faster community recovery from disaster.

Additionally, this event was never declared a disaster by State Government which meant there was no state-coordinated recovery effort. This limited insurers' ability to engage effectively with government stakeholders involved in the recovery.

*Image courtesy of
Suncorp Group*

Cat 211: Perth Hills bushfire



93M

Incurred



1,102

Claims



\$84K

Average claim

4 days

Until insurance
catastrophe was
declared

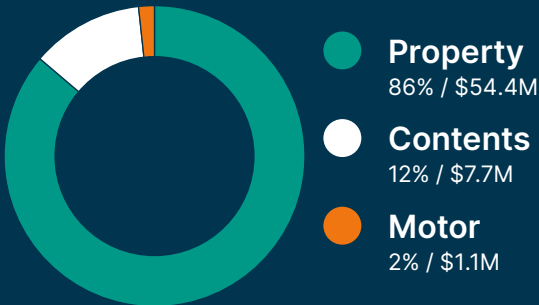
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Community
meetings

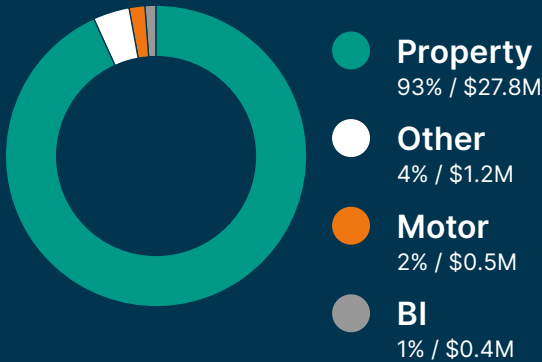
1 day

Until ICA was on
the ground

Personal claims
\$63.2M



Commercial claims
\$29.9M





Throughout January and February 2021, Western Australia experienced several intense heatwaves. These high temperatures dried out new vegetation growth and, coupled with very strong winds, created very high bushfire risk conditions.

Shortly before midday on 1 February 2021, a fire broke out in Wooroloo in the Perth Hills region. Within an hour an emergency warning had been declared for the suburbs of Wooroloo, Bailup and Gidgegannup but it was not until 6 February that the fire was contained.

In total, the Wooroloo fire burned over 11,000 hectares of land and 86 homes were destroyed, with most being lost within the first few hours.

Industry response

Immediately following the start of the fire, the Insurance Council contacted the Western Australian Department of Fire and Emergency Services (DFES) offering the insurance industry's support. As more information came to hand, the Insurance Council negotiated border travel exemptions to rapidly deploy key disaster specialists to the impacted region.

As the fire continued to burn, experts were on the ground engaging directly with affected

residents. Claims specialists were located at various recovery centres and Insurance Council representatives provided information at community meetings on managing insurance claims. Insurance assessors were among the first to gain access to damaged and destroyed properties, which allowed rapid inspection and settlement of claims.

In the weeks following the fire, ICA and insurance staff remained in the community working with residents and local and state government to ensure the recovery was expedited. Early in the recovery, the Insurance Council worked with DFES to establish a government-coordinated debris removal program which ensured residents' insurance settlements were maximised.

Issues in recovery

The community recovery from this disaster has been slow due to the length of time it has taken for government contractors to remove the debris from destroyed homes. Until properties have been cleared of debris, residents are unable to proceed with rebuilding their lives. This issue can be resolved in the future by pre-selecting contractors ahead of each disaster season and only using contractors with experience in disaster recovery.

Cat 212: East coast storms & floods



652M
Incurred



56,358
Claims



\$12K
Average claim

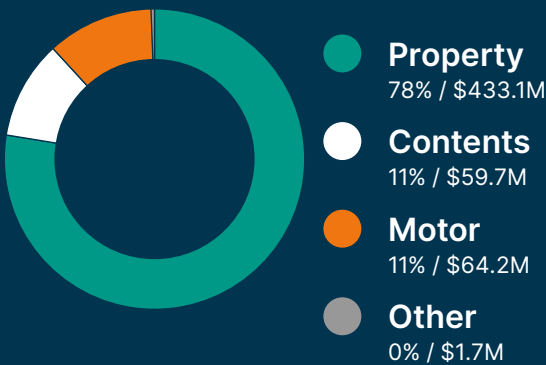
6 days

Until insurance
catastrophe was
declared

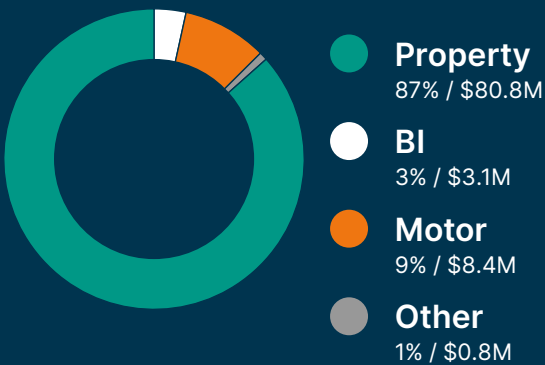
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Community
meetings

Personal claims
\$558.6M



Commercial claims
\$93.1M





In March 2021, sustained heavy rainfall fell across much of the Australian Eastern Seaboard. Following above average rainfall since the beginning of 2021, many river systems were quickly upgraded to moderate and major flood warnings.

As the situation unfolded, the Insurance Council maintained communication with the New South Wales SES and State Emergency Operations Centre via Resilience NSW. The Insurance Council also stood up regular situational awareness briefings with insurers and insurers placed disaster response resources on standby.

By 22 March the extent of damage from rain and floods was known and the ICA declared an Insurance Catastrophe. Although this declaration was initially for New South Wales, it was expanded to include south-east Queensland on 24 March because of storms and flooding in the Gold Coast region.

Industry response

At the height of the event, the Insurance Council and insurers staged disaster response specialists in advance locations near the worst affected communities. Insurers also proactively contacted tens of thousands of residents to ensure their safety and arrange temporary accommodation for customers that had been evacuated and could not return home. This was critical to ensuring the number of residents in evacuation centres was minimised, particularly given COVID-19 health concerns.

As waters began to recede, these teams quickly moved into the impacted towns and cities to assist residents with the clean-up and claims process. Insurance Council disaster response experts travelled between impacted communities

to liaise with local government, present at community meetings and conduct house calls on vulnerable residents. This proved critical in identifying residents most in need of assistance and Insurance Council staff worked closely with State recovery agencies to support these residents. The Insurance Council also coordinated claims teams setting up at recovery centres in various locations to help residents lodge claims.

The Insurance Council and insurers continue to support affected residents and communities and specialists remain established in impacted towns to manage the rebuilding process and help displaced residents return to their homes as quickly as possible. The Insurance Council continues to work closely with Resilience NSW to support the broader recovery effort across the State.

Issues in recovery

A critical shortage of builders and trades continues to pose a challenge for insurers in repairing homes and businesses. This is being compounded by various state border restrictions which are preventing insurers from supplementing the local workforce with interstate workers.

This event has again highlighted that far too many homes in New South Wales are built on flood-prone land. Unfortunately, these homes are only becoming more exposed to flooding due to climate change. As the risk of flood increases, so does the cost of insurance. This can result in homeowners opting out of flood insurance and therefore requiring government support following a disaster. For this reason, the Insurance Council continues to advocate strongly for flood mitigation via improved land use planning to ensure communities are protected from floods.

Cat 213: Cyclone Seroja



281M
Incurred



6,751
Claims



\$42K
Average claim

6

Community
meetings

3,781 KM

ICA distance
travelled

2 days

Until ICA was on
the ground

Personal claims
\$120.9M



- Property
89% / \$107.9M
- Contents
6% / \$7.7M
- Motor
1% / \$1.0M
- Other
4% / \$4.3M

Commercial claims
\$160.1M



- Property
96% / \$154.3M
- BI
1% / \$2.1M
- Motor
2% / \$2.8M
- Other
1% / \$0.8M



In late March 2021, weather forecasts were predicting two potential cyclones developing off the coast of Western Australia in the first week of April. On 5 April Tropical Cyclone (TC) Seroja was officially named by the Indonesian Bureau of Meteorology and it crossed into Australia's area of responsibility the following day. Early cyclone tracking forecasts predicted Seroja would continue to intensify and head in a south-westerly direction away from the Australian coastline.

Now a category three storm, on Sunday 11 April TC Seroja made landfall in the mid-west region of Western Australia, causing significant damage to coastal towns that are mostly unprepared for cyclones. This is because TC Seroja impacted below the 26th parallel where under the national construction code buildings are not designed to survive cyclonic wind speeds. If a cyclone made landfall on the east coast at the same latitude it would hit Queensland's Sunshine Coast.

Kalbarri and Northampton bore the brunt of the storm's force with Seroja damaging about 70 percent of the town's structures according to news reports. Wind gusts clocked in at 170 kilometres per hour, most likely the strongest winds in the area in more than 50 years.

TC Seroja was downgraded on 12 April as it moved across the Wheat Belt region impacting the inland communities of Morawa, Minganew and Perenjori.

Industry response

In the 48 hours prior to TC Seroja making landfall, the Insurance Council began liaising with the West Australian Department of Fire and Emergency Services in preparation for a community impact in the mid-west region

of the State. The Insurance Council also liaised with insurers and requested additional resources to be in place in preparation for a possible major event response. Insurers stood up disaster teams for a possible rapid deployment and brought additional claims staff online to manage an increase in claims.

On the morning following landfall, the Insurance Council immediately deployed personnel to the impacted region to begin coordinating insurers' response in support of the affected communities. Shortly after, insurers deployed assessors, loss adjusters, builders and trades to the region under the coordination of the Insurance Council.

To assist residents, the Insurance Council spoke regularly at community meetings, made house-calls and escalated insurance issues. Insurance Council staff also worked closely with the local and state governments to coordinate asbestos removal from impacted communities to minimise public health and cross-contamination risk. A local print, radio and social media campaign was run to guide residents through the recovery process.

Issues in recovery

Unfortunately, Western Australia's strict COVID border restrictions have impacted insurers' ability to deploy disaster specialists and builders to affected communities. This has caused delays to repairs and limited insurers' ability to work closely with residents as they navigated the recovery process. This issue is not limited to Western Australia as each state and territory regularly applies similar restrictions. If lockdowns and border closures continue into the 2021-22 summer season, National Cabinet will need to consider standardised definitions of essential and emergency workers, and a streamlined process for issuing exemptions quickly when a disaster strikes.

Cat 214: Victorian storms & floods



230M

Incurred



26,578

Claims



\$9K

Average claim

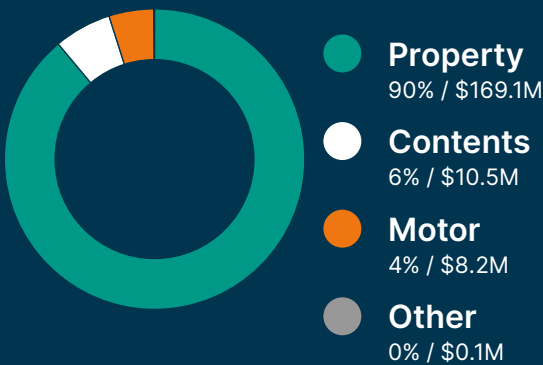
6 days

Until insurance
catastrophe was
declared

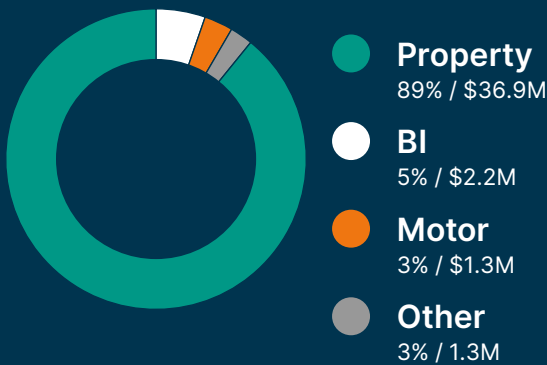
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Community
meetings

Personal claims
\$188M



Commercial claims
\$41.8M





On 9 June, a severe storm caused moderate to severe flooding east of Melbourne, in particular Gippsland and surrounding regions and in the Yarra Ranges. The storm brought extremely high winds which resulted in significant felling of trees and consequential property damage.

Damage was wrought across an arc north-west of Melbourne to north-east Victoria. However, the greatest impacts were on the more densely populated areas around the Yarra Ranges. Power outage was a significant factor in this event with some residents in the Yarra Ranges without power until mid-July.

Industry response

The Insurance Council commenced daily situational awareness briefings with insurers from 10 June to monitor the extent of damage from the storm and to assist government agencies, however it took several days for the scale of the event to become clear.

On Sunday 13 June the ICA declared an Insurance Catastrophe which activated on-the-ground deployment of disaster specialists to Traralgon, Latrobe, Yarra Ranges and Hepburn in support of recovery centres. The Insurance Council worked closely with Emergency Management Victoria and Bushfire Recovery Victoria to coordinate the

disaster recovery effort. The Insurance Council also worked closely with local governments to quickly identify residents in need of assistance. Claims related largely to property damage from falling trees, food spoilage from power outages, and some water inundation. There were at least 12 homes destroyed by trees.

The Insurance Council continued to work with Bushfire Recovery Victoria to support the recovery of the affected communities. This included supporting the Government-coordinated debris removal program by maximising insurance benefits available for rebuilding homes.

Issues in recovery

Unfortunately, COVID lockdowns in Victoria and the State's border closure with New South Wales affected insurers' ability to move builders and trades into impacted communities. This caused delays for insurance customers waiting for their homes and businesses to be repaired. This event also highlighted the gap between insurance and government support for removal of damaged trees. Insurance generally only covers trees that have fallen and caused property damage, and this does not include trees that may be compromised but have not caused damage. Insurers and government will work together to ensure gaps in support can be addressed ahead of future disasters.

Black Summer recovery update: Cat 195, 196, 201 and 202



5.47B

Incurred



304,359

Claims



91%

Closed rate



2019-20 Catastrophe claims



87% Personal

\$3.821B Incurred
266K Personal claims



13% Commercial

\$1.652B Incurred
39K Commercial claims

Australia's summer of 2019-20 made headlines around the world as fires raged across large parts of the country for months, burning millions of hectares of land, destroying thousands of homes and other buildings, devastating native wildlife, and killing at least 34 people.

The Black Summer bushfires devastated countless communities in New South Wales, Victoria, South Australia and Queensland, and the effects of the fires could be felt hundreds of kilometres away from the flames as acrid smoke hung over Sydney and other cities.

Throughout this protracted disaster, the Insurance Council and insurers deployed resources to impacted towns and cities, even sending a rapid damage assessment team to Mallacoota with the assistance of the RAAF. This on-the-ground approach allowed insurers to quickly assess claims and provide rapid financial support to residents in need.

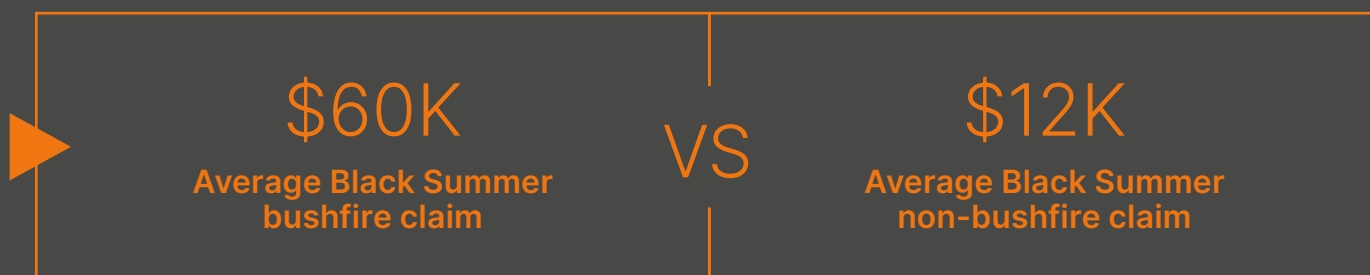
By the time all fires were fully contained insurers had received nearly 39,000 claims totaling more than \$2.3 billion. Around one third of claims by value were from

commercial customers, and two thirds from residential customers. More than 95 percent of these claims are now finalised and paid, supporting those households, businesses, and communities in their recovery.

State governments declared states of emergency at various times for different fires, and the Insurance Council declared an Insurance Catastrophe on 8 November 2019. This prioritised claims from affected policyholders, directed urgent assistance to those worst affected, mobilised personnel to work with local agencies and policyholders, and put disaster response specialists on the ground to assist customers with claims and assessments.

The area defined by the Catastrophe declaration grew over the bushfire season as losses continued to occur. The Catastrophe declaration eventually encompassed 183 postcodes across four states and insurers continue to support the recovery of impacted communities.

Beyond the Black Summer bushfires, Australia was also impacted by other significant and concurrent disasters during that terrible summer.



On 17 November 2019, South East Queensland was hit by severe thunderstorms and large hail which damaged homes and cars in the Sunshine Coast and Noosa regions. The Insurance Council declared a catastrophe and the disaster ultimately resulted in 31,000 claims totaling more than \$500 million in damage.

On 19 January 2020, severe thunderstorms brought large hail to a wide area of New South Wales, Victoria and the ACT. Based on the extent of damage, the Insurance Council declared a Catastrophe and insurers rapidly deployed assessors and claims staff to impacted regions.

A community forum was quickly arranged in Canberra to provide additional support, with more than 350 residents attending. In total, insurers received more than 132,000 claims from this weather system totaling nearly \$1.8 billion.

In February 2020 the east coast of New South Wales was hit by devastating rain and floods,

impacting numerous communities that had experienced bushfires less than a month before. The Insurance Council and insurers deployed disaster specialists to these communities to provide urgent support to residents and communities in need. That system saw more than 102,000 claims totaling in excess of \$973 million.

Over the many months since these disasters, the Insurance Council and insurers have continued to support affected residents and communities.

This support continues until all properties are restored and residents are back in their homes. Insurers have rebuilt thousands of homes across Australia, and many more have undergone significant repair and restoration. As part of this repair, homes are made more resilient to future disasters which helps minimise the effect of residents having to relive the same trauma again.

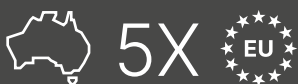
Image source
Shutterstock

The policy response

Natural disasters are by their very nature mostly unexpected and unforeseen, but that does not mean their risks and consequences cannot be protected against by appropriate policy settings and targeted investment in mitigation.

>\$8.9B

**Natural disaster claims
since 2018**



**Chance of being
displaced by
disasters**

\$18.2B

**Yearly economic cost of
disasters (avg. 2006-16)**

97%

**Natural disaster spending
post-event**

3%

**Natural disaster
spending pre-event**

The data shows that the cost of natural disasters is real, significant, and growing. Since December 2018 insurers have paid out more than \$8.9 billion in natural disaster claims, with more than \$6.1 billion paid out since the 2019-20 bushfires.

It's estimated that more than nine million Australians have been impacted by a natural disaster or extreme weather event over the last 30 years, and Australians are five times more likely to be displaced by a natural disaster than someone living in Europe.

According to a 2017 report commissioned by some of Australia's largest corporations and the Red Cross, the total economic cost of natural disasters in Australia over the decade to 2016 averaged \$18.2 billion per year, equivalent to 1.2 percent of GDP.

The same report found that by 2050 the total cost of natural disasters in Australia is forecast to more than double in real terms to \$39 billion per year.

The Productivity Commission has estimated that 97 percent of all natural disaster funding in Australia is spent after an event, with just three percent invested prior to an event to mitigate the impact of future disasters. While recent public expenditure announcements have begun to redress this imbalance, the clean-up cost of natural disasters remains very large.

Governments and stakeholders who influence the policy process must take full advantage of available data, research, the experience of insurers, and the historical lessons to formulate and deploy practical policy responses to this growing challenge. The benefit will not just be felt by those bearing the brunt of extreme weather, but by all Australians.

The Insurance Council has identified six policy measures to be enacted to better protect Australians from the impact of natural disasters and improve the recovery and rebuilding process when disaster strikes.

1. Investing in resilience

Recent Commonwealth investments in the future protection of vulnerable communities have been welcomed, including \$600 million for new disaster preparation and mitigation programs as part of the establishment of the new National Recovery and Resilience Agency and \$40 million to make strata buildings in northern Australia more resilient to extreme weather events.

The Victorian and New South Wales governments have also recently increased resilience funding, however Queensland, which faces the most significant threat from cyclone and cyclone-related flood, has unfortunately all but ceased funding this crucial area with the cessation of some innovative home resilience programs.

States and territories should seize the opportunity afforded by the Federal Government's expenditure and seek to match this investment to provide even greater benefit to the communities they serve. Government at all levels – national, state, and local – should work together to identify the most urgent projects required to protect those communities most exposed to the risk of natural disasters.

The process of allocating investment in publicly funded resilience projects and infrastructure must be data-driven, independent of the political process with bipartisan support, require business cases to support high-value projects, and be followed up with analysis of the investment's impact.

2. Improving building quality and standards

Instilling resilience into our building codes is a key tool to mitigate the physical risks arising from catastrophes. The National Construction Code should be reviewed and amended to ensure greater resilience to extreme weather is incorporated into building design and construction, including the growing risk from climate change.

This should be complemented by improved inspection and compliance enforcement, to ensure buildings are constructed at least to code, and periodic inspections of existing buildings in high-risk areas are maintained post completion.

The Building Confidence Report provided 24 recommendations on ways the building quality and performance of output of product from the construction industry can be improved. Federal and State Governments should collaborate to increase focus on implementing these recommendations.

3. Better land use planning

Too many homes are in the direct line of flood, fire and cyclone, or at risk from actions of the sea, because at the time of planning and approval not enough account was given to the natural peril risk. Unfortunately, many of these properties are now cheaper to buy or rent because of this risk, and some are home to those who are least able to afford adequate insurance, compounding the impact of a natural disaster or extreme weather event.

The increased risk posed by a lack of mitigation at the planning stage and a lack of effective resilience in construction, coupled with the proximity of those properties to potential natural perils, means a higher risk rating which results in higher insurance costs for these owners and tenants.

While investment in mitigation measures may be able to protect existing communities, improved policy settings, across all levels of governments but particularly at a local and state level, are needed to ensure better land use planning decisions so future communities are out of harm's way and no longer require costly investment in mitigation.

How better land planning settings are implemented will differ between jurisdictions, but all planning decision makers need to have access to and make more effective use of robust and consistent natural peril data to ensure no more inappropriate development takes place. Planning powers need to provide the appropriate authorities with the ability to make determinations based first and foremost on the natural peril data, and not because of political or commercial imperatives.

4. Removing state taxes on insurance

Maintaining adequate insurance cover against natural disaster risks enables individuals and businesses to recover faster and get on with the task of rebuilding, however this is hampered by state taxes and charges driving up the cost of premiums.

The tax system should encourage, not hinder, insurance coverage. To improve levels of underinsurance and non-insurance all states and territories should abolish stamp duty on insurance, and New South Wales and Tasmania should follow other states and abolish their emergency and fire services levies.

According to a 2015 report the abolition of all state taxes on insurance would lead to a \$643 million (or 13 percent) increase in household expenditure each year on pre-tax insurance premiums on homes or contents across Australia.

Industry areas for improvement

The Insurance Council and insurers constantly review natural disaster response operations to drive continuous improvement for impacted customers and the stakeholders who support them. In particular, the impact of COVID-19 has created several new challenges when responding to impacted communities, which are being addressed with government.

In addition to advocating for the policy changes outlined in this section, the Insurance Council and insurers will focus on the following areas of improvement:



Community

On-the-ground community support is essential through the response and early recovery stage and COVID restrictions need to be better managed.



Local Government

Better dedicated relationship management of local government ensures information and data are shared and both parties are informed throughout the recovery process.



Data

Standardised data sharing agreements with government, emergency management and regulators will assist all parties to manage these events more effectively and ensure a consistent source of data. The Insurance Council will investigate the use of geospatial data procured for the insurance industry to support response and recovery efforts.



Communication

Continued and more frequent use of social media and other communication channels will ensure communities have the information they need to support their recovery.

Given the positive policy outcome that would result in such a reform, the Federal Government should consider incentivising states and territories to undertake this important reform, as the Howard Government did for the removal of various state taxes and charges with the introduction of the GST.

5. Better COVID frameworks

COVID restrictions and border closures are causing significant challenges for insurers that are involved in rebuilding and repairing disaster-affected communities. While insurers appreciate the need for restrictions to mitigate health risks and protect the community, this must be balanced against the needs of residents whose homes have been damaged or destroyed.

Even during COVID lockdowns, it is essential that critical repairs can continue for buildings to remain habitable and prevent further damage or destruction. National Cabinet should develop a consistent exemption framework for essential activities to provide clarity upfront in any lockdown.

In the event travel restrictions are imposed, it is critical that National Cabinet also develop an agreed framework that can allow insurers, builders and trades to be able to travel to provide urgent and essential services to communities impacted by a disaster. It is important that this exemption is provided at the outset of any restrictions to minimise uncertainty or delays if a disaster occurs.

6. Coordinated disaster clean-up

Safe, efficient and timely clean-up of waste and debris following a natural disaster is critical to physical and psychological recovery for communities.

The insurance sector supports in-principle state and Federal leadership of disaster clean-up to ensure consistency in hazard removal and equitable dispersal of public funds. However, insurers and impacted communities know that clean-up is often delayed due to level of planning and approval activity necessary in the absence of pre-existing clean-up protocols and arrangements.

State and Federal emergency response agencies should leverage insurers' core competency in and experience of disaster response and recovery and collaborate with the insurance sector and other agencies to implement standardised arrangements for disaster clean-up that best serve natural disaster-impacted communities.

Underinsurance

While it is difficult to measure the level of underinsurance in Australia, insurers know that this is a real and significant issue that can affect policyholders' ability to get back on their feet after an unforeseen event.

In some cases, insurers have no option but to offer a cash payment rather than reinstate what has been damaged or destroyed because the level of insurance the policyholder has chosen to take out will not cover the cost of a repair or rebuild. This leaves the policyholder to make up the difference, or in some cases walking away from a property they cannot afford to rebuild.

Insurers provide tools such as online calculators to help estimate the sum insured, but the customer may decide to insure at a lower sum as a form of self-insurance or may not accurately estimate the replacement value of their property.

Underinsurance is also driven by stamp duty on insurance, a retrograde revenue measure that numerous inquiries and reviews have found leads to household underinsurance or non-insurance. Government taxes and charges can range from 20 to 40 percent on top of the cost of the premium, depending on the state or territory.

Statistics clearly show that the level of taxes imposed on insurance correlates to the rate of underinsurance and non-insurance. For example, because of its Emergency Services Levy state taxes on insurance in New South Wales are almost three times higher than in Victoria. ABS data shows that 13 percent of households are uninsured in New South Wales while in Victoria this rate is just seven percent.

The impact of underinsurance

Wayne and his family lost their 1930s Lake Conjola property in the Black Summer bushfires. When Wayne evacuated from his property he suspected it had been lost, and sadly he was right.

Wayne lodged an insurance claim when the RFS confirmed the loss. Within hours an assessor who knew the area had called and within 24 hours the claim had been assessed. Both his home and contents were insured for replacement value; the contents claim was paid within two days and his building claim in 11 days.

Wayne admits he didn't factor in the cost to rebuild his property when he renewed his building policy. He hadn't considered the local council building regulations, the cost of in-demand trades and materials, or the Bushfire Attack Level rating of his location. He was underinsured.

Wayne's insurer looked after his claim "beyond expectations", but the reality of building a new property in 2021 in this bushfire-prone coastal community meant he had to find \$80,000 in addition to his insurance payment to replace his Lake Conjola piece of paradise.

**Wayne, Killarney, Lake Conjola,
New South Wales**



The background of the entire page is a photograph of a rural landscape. The foreground is a field of tall, golden-brown grass. In the middle ground, there is a line of trees and a fence. The sky is dark and cloudy, suggesting an approaching storm or late evening light.

About the Insurance Council of Australia

The Insurance Council of Australia is the representative body for the general insurance industry of Australia. Our members represent approximately 95 percent of total premium income written by private sector general insurers, spanning both insurers and reinsurers.

Our work with our members, consumer groups and all levels of government serves to support consumers and communities when they need it most.

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