



16 December 2024

Ms Marlo Baragwanath
Victorian Ombudsman
Level 2, 570 Bourke Street

Via email submission.noreply@ombudsman.vic.gov.au

Dear Ms Baragwanath

The Insurance Council of Australia (**Insurance Council**) thanks the Victorian Ombudsman for the opportunity to provide a submission to assist your ongoing investigation into flood planning decisions in metropolitan Melbourne.

About the Insurance Council

The Insurance Council is the representative body for the general insurance industry in Australia and represents approximately 90 per cent of private sector general insurers. Our members perform a critical role in the Australian economy, assisting individuals, small businesses, and communities to become more resilient and financially recover from loss or damage to their insured assets.

As a foundational component of the Australian economy the general insurance industry employs approximately 46,000 people¹, generates gross written premium of \$66 billion per annum, and on average pays out \$159 million in claims each working day (\$39.4 billion paid out per year)².

Introduction

The Insurance Council recognises the importance of inquiring into the actions and decisions relating to the Kensington Banks estate and the Rivervue Retirement Village. In August 2024, I was fortunate to take part in a meeting with community members and affected residents to discuss this issue. The forum, which was hosted by the Hon. Bill Shorten MP and attended by Daniel Mulino MP, Ellen Sandell MP and Brendan Moon, Coordinator General, National Emergency Management Agency, not only highlighted the ongoing task to deal with both legacy and future flood risk; it also reinforced the emotional and financial impact this issue is having on community members.

The Insurance Council notes a number of the matters you are investigating were also examined as part of the Victorian Government's Inquiry into the 2022 Flood Event in Victoria and we invite you to review our submission as part of this process to assist you undertake this inquiry³.

We also wish to point out that your Inquiry is being undertaken in the context of a broader Inquiry by the House of Representatives Standing Committee on Economics into the 2022 floods. The Inquiry identified 86 recommendations aimed at further improving the insurance industry's response to natural disasters and enhancing consumer protections. The Insurance Council and our members are

¹ General Insurance in Australia - Market Size, Industry Analysis, Trends and Forecasts (2024-2029), <https://www.ibisworld.com/au/industry/general-insurance/526/>

² PRA data, APRA releases general insurance statistics for June 2023 | APRA, June 2023

³ https://www.parliament.vic.gov.au/494919/contentassets/c7be1bc18499435eb0e3620ab8f59f2e/submission-documents/693.-insurance-council-of-australia_redacted.pdf

continuing to work through the Report's recommendations and prioritising actions to respond to the Report's findings.

Your investigation is also being undertaken during a period of growing pressure in the insurance market which is being driven by many factors, including the impact of more regular and extreme weather events. These extreme weather events, in conjunction with rising inflation and increases in the cost of re-insurance, continue to lead to increasing levels of non-insurance or under insurance. This growing challenge is highlighted by a recent report⁴ from the Actuaries Institute found the proportion of "affordability stressed" households – those facing home insurance premiums that are more than one month's gross annual income – rose to 15% in the year to March 2024 from 12% the previous year.

Against this backdrop, this submission identifies measures that will help build an accurate risk picture to support improved decision making, and policy changes needed in the future to minimise the risks associated with increased flooding. These measures are critical to driving down risk in communities and consequently putting downward pressure on insurance premiums

Flood Risk

The Insurance Council notes media reports that recent flood modelling by Melbourne Water to model the impact of a 1% AEP (Annual Exceedance Probability) flood event has led to approximately 900 homes in the Kensington area being re-classified⁵.

Furthermore, the Insurance Council understands that the study also models a "climate change scenario" which also highlights the level of risk faced by homes in the area. Understandably, this modelling has led to concern among community members who may have been unaware of the level of risk their homes faced. By way of context, insurers typically only consider current climate conditions in premium pricing calculations, however, land use planning decisions need to take into account future climate conditions to minimise the impact and effects of extreme weather events.

It is useful to understand these figures against the broader picture of Australia's national risk profile. Of the approximately 15 million properties nation-wide, it is estimated that around 1.2 million face some level of flood risk. Data from the National Flood Information Database (NFID) also shows:

- Approximately 230,000 properties have a 5% flood AEP
- Around 21,000 of these properties are located in Victoria
- A further 420,000 properties nationally face a 1 in 50 or 1 in 100 annual chance of flooding.

The number of properties at risk of flooding (both nationally and in Victoria) underscores the importance of delivering targeted policy measures to improve the resilience of existing homes at risk of impact from worsening extreme weather. It also highlights the need to ensure industry and governments continue to work together to address key data gaps that prevent insurers and homeowners from building an accurate picture of flood risk, particularly in a changing climate.

Sharing Flood Information to Understand Risk

Knowledge about the nature and extent of flood risk is an essential part of living in flood prone areas. To help achieve this understanding, the insurance industry utilises the NFID. The NFID, which is funded and managed by industry members, allows insurers to determine the flood risk to individual

⁴ https://actuaries.asn.au/docs/thought-leadership-reports/home-insurance-affordability-and-home-loans-at-risk.pdf?sfvrsn=427cb1f4_2

⁵ If a flood has an AEP of 1%, it has a one in 100 likelihood of occurring in any given year.

properties by combining all available flood data into a format that they can use to underwrite flood risks.

In 2008, flood insurance was not commonly available as a standard product in Australia. Over time, NFID has enabled more insurers to understand flood risk and provide flood insurance coverage. Understanding the flood hazard through robust and comprehensive data through the NFID is essential to accurate flood risk pricing and to ensure that the premiums insurers calculate reflect the true nature of the risks they cover.

Insurers have been working proactively with all levels of government, as well as private entities, to access flood hazard information to inform our understanding of flood risk and to ensure that flood cover can be made as widely available. Where information is not accurate or not available, insurers are either unable to offer premiums that accurately reflect the nature of the flooding for the location, or they may need to refer to alternative methods for estimating the risk.

The Insurance Council has been engaging with Melbourne Water to incorporate its flood modelling into the NFID. While some flood studies have been shared, they are not to the level of detail required to be integrated into NFID and for insurers to use for pricing. We would therefore encourage Melbourne Water to share with our flood modelling partner, Risk Frontiers and the Insurance Council, the detailed outcomes of their flood studies for integration into the NFID to enable insurers to use this data for accurate premium pricing. This request extends to the sharing of data with individual insurers.

Collaborating to Improve Risk Mitigation

As I discussed at the Kensington community forum, the Insurance Council is keen to collaborate with relevant stakeholders to progress measures to support improved understanding of flood risk. We are working with all parties, including the City of Melbourne and Melbourne Water to progress collaborative initiatives to uplift understanding of the NFID, and best practice on how to publish and communicate flood mapping.

Utilising Data to Inform Investment Decision Making

The Insurance Council's commitment to work with industry and governments to more effectively utilize data to inform decision making about potential risk mitigation investments is demonstrated by our involvement in the Hazards Insurance Partnership (HIP). The HIP is a joint initiative between the insurance industry and the Federal Government to work more effectively together to share data to inform government decisions around mitigation infrastructure, with a goal to moderate rising insurance premiums. A key HIP initiative has involved sharing data between Government and industry to improve understanding of affordability, under-insurance, and non-insurance issues which can inform policy and programs.

The need for action

The extreme weather events experienced by Victoria in recent years underline the importance of improving our resilience in the face of a changing climate.

As of October 2024, the floods have caused approximately \$650 million in damage to Victorian properties insured by ICA members. This damage is spread across 35,000 claims, with an average cost per claim of \$35,000. Of this total, 31,000 claims (88%) have already been closed. Creating a more resilient Victoria in the face of a changing climate is key to addressing growing levels of risk and to closing the insurance protection gap referred to above.

Changing the risk profile of these communities exposed to extreme weather requires action by the State Government to make homes, businesses and communities more resilient to extreme weather, by shifting what we build and where we build it. These measures include:

Resilience Investment: Following significant flooding in 2020, the NSW and Queensland Governments have both established the resilient homes funding programs to address the unacceptable levels of risk in their communities. In the context of supporting measures to minimise risk to flood affected communities, the Insurance Council encourages the Ombudsman’s inquiry to recognise the potential benefits of the Victorian Government delivering a similar program to reduce the impacts of legacy exposure to flooding events to protect communities and their property. We also invite the Ombudsman’s inquiry to encourage the Victorian Government to prioritise grants under the Federal Government’s Disaster Ready Fund towards programs focused on hazard and exposure reduction. Government investment should also be targeted to support planned relocation in areas where the likelihood and impact of flooding is very high.

Review of land use planning: The number of properties at risk in Victoria underscores the importance of progressing work being undertaken to develop a national framework and guidance on nationally agreed principles for natural disaster and climate risk considerations in land use planning decisions. This work, which is being led by the NSW Government, is an important part of jurisdictions’ response to National Cabinet’s declaration in December 2022 that “the days of developing on flood plains needs to end.” The Insurance Council strongly supports the decision of National Cabinet and encourages Victoria to follow through on this commitment following its completion by the NSW Government.

Resilience in the National Construction Code (NCC): Strengthening our building codes and standards is a key policy lever that needs to work alongside improved land use planning and investment in resilience infrastructure to mitigate the risks posed by climate change. More frequent and severe extreme weather events mean we must design and construct stronger new homes that are both more resilient and durable. Fundamental to achieving this is embedding the principle of resilience in the NCC. A report⁶ from the Insurance Council undertaken by the Centre International Economics has found strengthening the NCC could save an estimated \$4 billion a year. The Victorian Government, via its representation at the Building Ministers’ Meeting and on the ABCB, should continue to support amendments to the NCC and relevant Australian Standards that prioritise building resilience and considers current and future climate projections.

Improved Data: The development of a robust, national hazard database that streamlines existing national, state and territory datasets and that is accessible to all levels of government, industry and the Australian public can play a critical role in improving and standardising our understanding of climate risk and how we prepare for it. The Victorian Government should work with other jurisdictions and the Commonwealth via the HIP to update, standardise and make publicly available climate hazard data, considering long-term time horizons and prioritising the high impact perils of flood, bushfire, cyclone and coastal erosion. We welcome the commencement of this process via the National Disaster Risk Profile being established by NEMA. This work should consider all possible perils to help establish a national public baseline that can better inform land use planning, building codes and standards and understanding of current and future risk. The Insurance Council also encourages the Victorian

⁶ <https://www.thecie.com.au/publications-archive/resilience-durability-and-the-national-construction-code>

Government to draw on robust, streamlined national hazard data developed by the Federal Government, via the HIP, to help inform and prioritise suitable resilience projects in the state.

We trust that our initial observations are of assistance, and we would be happy to discuss our submission further if you require further assistance.

Regards



Andrew Hall

Executive Director and CEO