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Mr J Trowbridge
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28 JUL 2011

Dear Mr Trowbridge

Please find attached the Tasmanian Government's Submission to the inquiry into flood insurance and related matters.

Thank you for the opportunity to comment. Should you have any queries in relation to this matter please contact Mr Nick Atkins in the Office of Security and Emergency Management of the Department of Premier and Cabinet. For your information Mr Atkins can be contacted by telephone on (03) 6270 5470 or by email to Nicholas.Atkins@dpac.tas.gov.au

Yours sincerely



Lara Giddings MP
Premier



Tasmanian Government's Submission

Natural Disaster Insurance Review

Inquiry into flood insurance and related matters

July 2011

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I. OVERVIEW

The Tasmanian Government recognises that insurance is an important strategy for individuals to mitigate their risks from natural hazards, including floods, and to improve the overall resilience of communities. However, it is only one measure out of many that can be utilised to achieve this outcome. It is the view of the Tasmanian Government that any decision on changes to the insurance arrangements for natural hazards should have regards to the:

- roles and responsibilities of individuals in managing private risks;
- role of governments in supporting individuals to manage private risks;
- intersection between private risks and public risks, including risks associated with moral hazards;
- impacts of government policy on the ownership of risks and the capacity to, or likelihood that risks from natural hazards will be factored into investment decisions; and
- impact of government policy on community resilience and the ability of communities to own and manage risks at the local level.

On 13 February 2011, the Council of Australian Governments (COAG) agreed to the National Strategy for Disaster Resilience (the Strategy). The Strategy outlines a new approach to risk management that focuses on the Australian community accepting a shared responsibility to prevent, prepare, respond and recover from natural disasters. This includes developing a shared understanding of risks posed by natural disasters.

The Strategy recognises that governments, at all levels, have a significant role in strengthening the nation's resilience to disasters by:

- developing and implementing effective risk-based land management and planning arrangements and other mitigation activities;
- having effective arrangements in place to inform people about how to assess risks and reduce their exposure and vulnerability to hazards;
- having clear and effective education systems so people understand what options are available and what the best course of action is in responding to a hazard as it approaches;
- supporting individuals and communities to prepare for extreme events;
- ensuring the most effective, well-coordinated response from our emergency services and volunteers when disaster hits; and
- working in a swift, compassionate and pragmatic way to help communities recover from devastation and to learn, innovate and adapt in the aftermath of disastrous events.

The Strategy also recognises that resilience is a collective responsibility that is shared by all members of the community and reinforces the need for governments, industry and individuals to articulate and attribute the ownership of risk to those who are going to benefit from the treatment of them. A core objective of the Strategy is to ensure that, over time, risks from natural hazards are factored into the decision making processes and investment decisions of all Australians.

Managing private risks

The Australian/New Zealand Standard for Risk Management (AS/NZS ISO 31000:2009) supports the principle of managing risk, or ensuring that the likely costs associated with an exposure to a natural hazard, such as a flood is known and balanced against the benefits that arise from the activity that gives rise to the exposure. In terms of residential properties, perfect risk management would mean that all residents are aware of the risks from floods and make a conscious choice that the benefits of occupying the property are greater than the costs, including the cost associated with flooding.

The natural role of insurance is not to mitigate the risks from natural hazards. Rather, insurance is a tool to balance out the costs associated with low frequency, high consequence events such as natural disasters. In other words, insurance allows an individual to accept the costs of their house being flooded once in every 100 years by spreading the cost of the flood evenly over the entire period. The insurance market is a useful mechanism to set the annual price of the risk and to manage uncertainties by spreading this risk over a wide area.

The Issues Paper, at paragraph 2.19, suggested that the “...*most important element of this Review is to investigate ways to extend the availability of flood cover and while doing so to overcome the affordability problem for flood cover where flood risk is high*”. It is suggested that that this should not be the primary objective of the Review. Rather, the Review should consider:

- the extent of, and source of historic failures that have allowed families to expose themselves to risks that are unaffordable in the short, medium and long term (irrespective of the existence of insurance);
- the role of governments in overcoming these failures in the interests of equitable treatment of families; and
- the tools that may be available to government, industry and individuals to ensure that everyone can appropriately assess and manage their private risks associated with a natural hazard such as a flood (including through access to affordable insurance).

Insurance Liability as a Tool to Allocate Risk

The Issues Paper introduces a second role for insurance. That is, to price risk and to allocate a part of the burden of that risk to government (Commonwealth, State or Local) as the purported owners of the responsibility for mitigating the risks. Under options one and two outlined in the paper, Governments would declare the level of risk (in terms of costs for recovery) that should then accept liabilities that arise over and above this threshold.

To achieve this outcome, the Government would intervene in an otherwise functioning insurance market reasonably be managed by the individual through insurance and to mandate an extension for flood cover beyond the current bounds of the functioning insurance market and set conditions around the extent and type of cover that must be offered.

The Tasmanian Government is concerned that the merits of government intervention in the insurance market has not been adequately justified. It is cautioned that market failure is, most likely, associated with information failure and inadequate pricing of negative externalities in the property market.

The cause of this failure should be identified and any action from governments to correct this failure should be based on a full assessment of the options available. Intervention in either the property or the insurance markets should only be contemplated after it is shown to be the least cost option in terms of efficiency and effectiveness.

The Chairman of the Natural Disasters Insurance Review has publically stated that ‘...government intervention in insurance markets is justifiable only where affordable insurance is not available, i.e. availability and affordability of insurance is a key theme of the Review’¹. The Tasmanian Government supports this statement to the extent that it recognises the need to understand the current limits of the insurance market and to assess whether it is in the interest of the broader community for governments to either intervene to deliver an alternate outcome through the insurance market or, alternatively, to deliver an outcome through some other means. The Government notes that there is not a common view on whether the current insurance market is ‘failing’².

Whilst the issue is not raised in the discussion paper, it is considered worthwhile to note the differences between government intervention in the insurance market for terrorism and the proposed intervention of flooding.

Following the September 2011 terrorist attacks insurers withdrew from the market. As a result, the Commonwealth Treasury commissioned an assessment of the Australian market which found that virtually no terrorism-related insurance cover was available for commercial property and business interruption. Where cover was available, it was at prices that far exceeded the perceived cost of the risk, with large excesses and relatively low maximum coverage, compared to the market cover previously available³. This indicated that the available capacity for terrorism insurance was not being filled and justified the case for government intervention that resulted in the introduction of the *Terrorism Insurance Act 2002*.

The case for government intervention in the insurance market to protect commercial and business interests from the risks associated with terrorism can be justified on the basis of the rate of the change in the risk profile, the limited capacity to price the risks due to the significant uncertainties associated with terrorism and the limited capacity for the private sector to quantify and individually manage those risks to the satisfaction of the insurance industry. These elements do not arise to the same degree with respect to flooding.

Australia should consider carefully the issues that have arisen in relation to government intervention in this area overseas. The Issues Paper identifies several issues with the model adopted in the United States. These issues include that the model is not actuarially sound to build sufficient reserves to cover losses that exceed historical averages. It is not clear how any proposed scheme, if established in Australia, would avoid similar failures.

¹ ‘Beyond the Mandate’ Speech to the Institute of Actuaries of Australia. Mr John Townbridge, Chairman, Natural Disasters Insurance Review

² See <http://www.insurancenews.com.au/local/suncorp-hits-out-on-compulsory-flood-cover>

³ See *Terrorism Insurance Act Review 2006. Regulation Impact Statement*.

Insurance in Tasmania

In the Tasmanian context, like other jurisdictions, the insurance market comprises insurers who are:

- able to price flood risk and offer flood insurance;
- unable to price flood risk and offer flood insurance; and
- either able or unable to price flood risk but, for commercial decisions, do not offer flood insurance.

The 2007 Report produced by the Insurance Council of Australia (*The Non-Insured: Who, Why and Trends*) estimated that:

- 7 200 owner-occupied households in Tasmania did not purchase any form of building insurance. This represents a non insurance rate for buildings only of approximately five per cent;
- 47 000 of the households in Tasmania did not have contents insurance representing a non insurance rate for contents only of approximately 24 per cent; and
- the majority of risk was carried by those classified as being on a low income⁴.

The Report did not identify the type of insurance coverage held. As such, it is not possible to assess or compare the extent of flood insurance held by Tasmanian households.

The Insurance Council of Australia has stated that *'the primary obstacle to achieving greater market availability of flood cover for the majority of households, is the ability for insurers to understand and price the risk'*. In the Tasmanian context, however, there is anecdotal evidence that the existence of quality evidence may not always be the driving force behind insurers not including flood cover in policies. For example, the suburb of Invermay in Launceston has had comprehensive flood mapping undertaken yet few insurers offer flood cover. This suggests that the availability of flood insurance is related to both pricing risk and commercial decision making by insurers.

Defining the Role of Governments in Managing Private Risks

Ideally, governments would have no role to play in assisting individuals to manage private risks. Complexities can arise, however, where individuals expose themselves or their communities to unaffordable risks through lack of knowledge or inefficient pricing of risk during the purchase of the property. The risk profile of property can also change over time. These issues are not points of failure in the insurance market, but rather, failures in the property market.

A question that must be considered in this Review is whether or not government intervention, to extend the insurance market to cover for failure in the property market, is a necessary and effective response. Is it the most efficient and effective way to assist people to manage their own unique risks? Resolution of this question is fundamental to identify the role for government and for deciding if and how the insurance market could be utilised to address the issue of flood insurance.

⁴ Insurance Council of Australia (2007) "The Non Insured: Who, Why and Trends" prepared by Dr Richard Tooth and Dr George Barker from the Australian National University, Centre for Law & Economics.

The Tasmanian Government's submission will now address each of the chapters discussed in the Issues Paper.

2. HOME INSURANCE COVER FOR FLOOD

Are there any other models besides Automatic Flood Cover and Automatic Flood Cover with Opt Out, supported in either case by a high flood-risk discount and funding arrangement, that could materially improve the availability and affordability of flood cover within home insurance policies?

It is suggested that an appropriate question in this area should be "...are there any other models...that could address any inequities associated with the exposure of individuals to costs arising from flood?". Other models that are available to government include:

- direct payments to individuals to assist with recovery;
- promotion of public appeal-based support to allow communities to assist individuals to recover from floods;
- non-market-based mechanisms to allow individuals to manage risks (with government assistance) through, for example, community funds and collectives;
- statutory mechanism to allow collective private investment in mitigation measures that reduce risks to a level that can be accommodated by the insurance industry; and
- direct investment of governments in mitigation measures to reduce the risks to a level that can be accommodated by the insurance industry.

Any consideration of the appropriate approach by government should be based on an assessment of the efficiency and effectiveness of the proposed intervention.

Regardless of the model applied, the following policy principles should apply:

- support individual ownership of risk;
- support factoring risk into investment decisions;
- contribute to removing information failures in the property market and more effectively manage and price negative externalities;
- provide for any risks to be allocated to the broader community (through government intervention) to be reduced over time (a time limited solution);
- allocate the ongoing costs of mitigation to likely beneficiaries; and
- include reasonable incentives for reasonable decision-making by penalising individuals that have the capacity to, but choose not to adequately protect themselves against known risks.

In the longer term, any model should require that those members of the community who know the risks but choose to remain in the location and gain the benefits of doing so, accept and pay the costs of managing the risks that they face.

3. IDENTIFYING THE HOMES WITH HIGH FLOOD RISK

How practical is the implementation of an engineering threshold and a price threshold?

The insurance market already provides a mechanism to define the appropriate boundary of cover for flood insurance. In the absence of any suggestion of other areas of market failure, any intervention by government to redefine this market will inevitably lead to an increase in the marginal costs for the insurance industry which would have to be shared across other policy holders. The cost impact on policy holders that are not exposed to flood risks should be considered carefully, including whether this is the most efficient and equitable mechanism to redistribute these costs.

What are the requirements for each to operate successfully?

The engineering threshold would require information relating to hazard exposure and the particular circumstances of communities (or vulnerabilities). The approach would also require all stakeholders to agree to appropriate risk tolerances.

What are the relative merits of these two approaches?

The merits of the engineering threshold are that it will be based on sound, well understood methodology for determining risk which result in clear, objective criteria that would operate independently of the insurance market. This would provide certainty and confidence in the setting of the high risk threshold.

Are there any other concepts that might be applied to establish a high-risk threshold?

The Tasmanian Government has no further comments to provide at this stage.

4. A HIGH-RISK FLOOD INSURANCE SYSTEM

The Tasmanian Government has no further comments to provide at this stage.

5. FLOOD COVER FOR CONTENTS INSURANCE

The Tasmanian Government has no further comments to provide at this stage.

6. FLOOD COVER FOR STRATA TITLE AND OTHER RESIDENTIAL PROPERTY

The Tasmanian Government has no further comments to provide at this stage.

7. FLOOD COVER FOR SMALL BUSINESS

The Tasmanian Government has no further comments to provide at this stage.

8. NATURAL DISASTERS OTHER THAN FLOOD

The Tasmanian Government has no further comments to provide at this stage.

9. MEASURING FLOOD RISK

The Tasmanian Government, the Commonwealth Government and other key stakeholders are aware that projecting the future impacts of natural events is fundamental to evidence based land use planning decisions, building codes, development policies and emergency management planning.

Through the Climate Futures for Tasmania Project (the Project), stakeholders have invested significantly in flood mapping activities, for example, the Project includes flood mapping for four catchments in Tasmania at the 1:10, 1:50, 1:100 and 1:100 AEP. The maps include a baseline period incorporating historical data and scenarios for three future periods (2010-39, 2040-69 and 2070-99).

What are the merits of developing a single national standard for flood mapping in Australia?

As part of the Strategy, COAG agreed that a disaster resilient community is one that has knowledge and understanding of local disaster risks and accepts that there is a shared responsibility to understand these risks to lessen their impacts. However, the Strategy also notes that the responsibility for undertaking this work is shared.

The adoption of a national standard for flood mapping would provide a sound basis upon which the Australian community could identify their risks and this would potentially deliver on the priority of the Strategy that organisations, individuals and governments routinely share information and maps on risks for the benefit of the community.

The Australian Rainfall and Runoff (ARR) Volume 1, developed by the Institute of Engineers Australia, provides national guidelines for design flood estimation for Australian conditions. However states differ in their approach in the use of these guidelines. Further work in this area would be of value.

What, if any, impediments are there in doing so?

All governments have agreed, through the Strategy, to examine the issue of flood mapping with reference to existing knowledge, initiatives, currency of information and gaps. The differing requirements of stakeholders and the significant implication for existing development will, however, make this work complex.

Who would be best placed to develop such a standard?

Any Standard would need to be developed collaboratively across all states and territories and Commonwealth governments. The National Emergency Management Committee would be an appropriate forum to coordinate the development of this standard.

Who should bear responsibility for producing and maintaining relevant flood maps? Who should fund this activity?

Any proposed solution should consider the cost of collecting this evidence base and whether these costs should be borne by government, industry or individual beneficiaries.

The National Disaster Resilience Strategy outlines a shared responsibility for undertaking this work. As such, it is not unreasonable to expect that those who use flood maps for commercial purposes contribute to their production. This is particularly the case where the needs of stakeholders in relation to the flood maps vary.

To what extent do land use decisions take flood risk into account?

The Tasmanian *Building Act 2000* and Tasmanian *Building Regulations 2004* provide guidance on developments in areas below the "designated flood level". In particular, the *Building Act 2000* states that:

“A person must not erect or place a building containing habitable rooms on land subject to flooding unless the floor level of each habitable room in the building is 300mm or more above the prescribed.”

For the following watercourse floodplains the designated flood level is the level which has a one per cent probability of being exceeded in any year (ie the 1:100 AEP flood level).

Most of these areas are covered by Floodplain Maps or Flood Data Books.

- Derwent River through New Norfolk;
- Upper reaches of the Tamar River and lower reaches of the North Esk River;
- Huon River at Huonville and Mountain River;
- South Esk River through Longford to the Tamar River;
- Jordan River below Pontville;
- Mersey River through Latrobe;
- Bagdad Rivulet;
- Elizabeth River through Campbell Town;
- Macquarie River at Ross;
- Coal River at Richmond; and
- Meander River at Deloraine.

Where land is known to be subject to flooding, the designated flood level is 600 mm above ground level, or the highest known flood level, whichever is higher.

In the Tasmanian context, the majority of planning schemes address flood risk either by direct reference or by ensuring that natural hazards are identified and addressed at the time of development. It is noted, however, that the requirements of each planning scheme are different.

For example, under the Hobart City Planning Scheme, all developments proposed on land that is prone to inundation by a once in a hundred year ARI flood event, or is likely to be prone to the same in the future as a result of sea-level rise, need to satisfy the provisions Schedule Q of the City of Hobart Planning Scheme 1982. This Schedule set out 'acceptable solutions', which, if met, render the development 'permitted' for the purposes of the Schedule. As an alternative, there are 'performance criteria' which applicants can seek to meet rather than the 'acceptable solutions'. These applications are 'discretionary' and require public notification.

The 'acceptable solution' for development on flood prone land sets a figure of 300 mm above the once in a hundred year flood level to provide a freeboard above a defined level of risk. It accounts for variations in flood levels due to such events as increases in storm intensity, build up of debris, high tides and storm surge. This is consistent with the Building Act. Indicative plans showing the areas prone to flooding at the one per cent AEP level of risk are publicly available.

Under Tasmania's Emergency Management Arrangements, all councils are required to maintain an Emergency Management Plan that includes information on the hazards and risks particular to the council area. For example, under the Break O'Day Emergency Management Plan, the risk that the Georges River may flood is identified as well as treatment options include strategic asset management and land use planning options for residential developments.

Managing risks associated with natural hazards has been historically viewed as part of Local Government's responsibility to promote sustainable development. Increasingly, however, the State and Commonwealth Governments have found it beneficial to provide guidance on 'sustainability' in terms of defining the risk/threat from natural hazards, developing tools for promoting the management of risks at the local level and producing materials to increase awareness of natural hazards in communities.

The likely impacts of climate change on coastal inundation and erosion and the increased frequency of severe weather events is providing an increased focus on these issues. It is understood that Local Government faces several challenges in responding to natural hazards under current circumstances with guidance and assistance needed in developing capacity, greater integration, better communication and a need for tools to provide for a consistent response.

The Tasmanian Government is currently progressing a project to develop a State framework for ensuring that the appropriate consideration is given to the mitigation of the impact from natural hazards in the planning and building system. The primary objective of the project is to improve the clarity and consistency of advice and support to local government and others regarding mitigating the impact of natural hazards through appropriate strategic planning, planning and building controls and development decisions.

There are four secondary objectives for the Project. These are:

- provide a clear framework for identifying and classifying the best available information on hazards for consideration in zoning and planning decisions, including information to support judgements regarding whether information is of appropriate scientific rigour, is expressed in an appropriate form and is of adequate detail to inform local
- decision-making;
- provide a clear framework for the provision of advice to local government on the appropriate processes for assessing 'acceptable risk' and an agreed statewide approach on interpreting future scenario-based risk or hazard modelling;
- identify an effective 'single point of authority' in hazard specific statements as a tool to deliver information to Local Government on hazards and ensure that Local Government has confidence that the information presented is the best available information on the hazard and/or risk; and
- agree a process for considering the consequence of new information made available with regard to hazards or risks that impacts on existing development and or planning decisions.

What, if any, are the potential impediments to councils making flood maps publicly available in a way similar to the Brisbane City Council?

Several Tasmanian councils have undertaken flood mapping to the once in a one hundred year flood level. These maps are publicly available. There is, however, varying views regarding the responsibilities (and liabilities) associated with the promotion of hazard maps where there is not a clear view regarding the adequacy and accuracy of the data that was used to produce the maps. The State will be working with councils on this issue as part of the project to develop a State framework for ensuring that appropriate consideration is given to the mitigation of the impact from natural hazards in the planning and building system.

As noted, the Tasmania Government also holds floodplain mapping for nine geographical areas of the State. The floodplain maps are detailed maps of areas inundated with various flood risks. These maps are predominantly urban areas where significant historic information is available, and where the potential economic cost of flooding is high. These maps are freely available to the general public⁵.

In addition, the Tasmanian Government has produced Flood Data Books. The Books are a collation of existing information on rural floods and their extent and include photographs, maps of flood extent, flood profiles, and a tabulation of heights reached by floods⁶.

To what extent is the lack of consistency and availability of flood maps limiting the insurance industry's ability to offer flood insurance?

Due to their information requirements, some insurers have invested in their own flood mapping to meet their information requirements. The Tasmanian Government believes that such an approach enables the unique information requirements of the insurer to be met. It would be useful if those insurers who have undertaken their own flood studies or mapping made this information freely available to governments.

For those insurers who do not undertake their own flood mapping, while it is recognised that some information is required to adequately price premiums, there is a significant amount of historical information that can support an insurer's decision making process, particularly in those areas where the flood risk is known. As noted, some Tasmanian councils and the Tasmanian Government have made a number of flood maps that are publically available.

It is also worthwhile considering how and why insurance companies in the same locality can in one case offer flood insurance as standard and, in the other, have flood as a stated exclusion. For example, the Invermay area in Launceston:

- is a known flood prone area and has had comprehensive flood mapping undertaken;
- has structural mitigation measures in place in the form of a levee system built to a once in one hundred year level and flood gates on the catchment;
- has an active Council that undertakes flood education activities for Invermay residents; and

⁵ See <http://www.dpiw.tas.gov.au/inter:nsf/WebPages/RPIO-4Y49UN?open>

⁶ See <http://www.dpiw.tas.gov.au/inter:nsf/WebPages/RPIO-4Y4976?open>

- have comprehensive emergency management arrangements, including appropriate plans and behavioural controls such as a flood siren.

The inundation map for a 1:50 flooding event in Invermay is provided below. This map provides information on predicted flood level, number and location of affected properties (2 300) and infrastructure at risk if the levee was to fail.



Despite the availability of evidence to price risk, a illustrative survey of insurance availability indicates that there is significant variation in the approach to providing residential insurance to cover the risks from flooding. The outcomes of the illustrative survey is outlined below⁷.

⁷ Insurers were contacted by telephone and provided with the following information:

- The dwelling is weatherboard and will be a owner occupier.
- No business use
- No national trust or heritage
- House value: \$350 000
- Contents \$100 000
- \$100 excess

	Is Flood Insurance Available as Standard?	Notes	Cost Per Annum
Insurer A	No	Insurer has withdrawn from the Tasmanian insurance market.	
Insurer B	Yes	Will not offer insurance without flood coverage	Building \$ 600 pa Contents \$ 434 pa
Insurer C	No	Flood and storm surge noted as being too much of a high risk on residential properties.	Building \$ 937.82 pa Contents \$ 608 pa \$250 excess
Insurer D	No		Building \$440 pa Contents \$256 pa

To what degree is not having a single source for flood maps an impediment to national consistency, both in terms of how maps are developed and how they are used?

A single source of flood mapping is not considered necessary or desirable. Flood maps need to be produced and managed by authorities that have some ownership of the risk to ensure that they are fit for purpose and distributed with the appropriate advice on the limitations associated with the data that was used to produce the map.

10. RISK MITIGATION AND INSURANCE

The Issues Paper has limited its scope of flood mitigation to focus on engineering solutions rather than other mitigation activities that can occur that may have a positive impact on flood losses.

Commonwealth Government reports, such as 'Benefits of Flood Mitigation in Australia' produced by the Bureau of Transport and Regional Economics, highlight mitigation measures that include structural, non-structural and behaviour modification are equally important in terms of flood mitigation.

The Tasmanian Government invests significant time and effort in a range of mitigation measures that, collectively, reduce the potential for flood losses. This includes flood warnings, emergency management planning and general risk awareness raising for those communities at high risk. It is also noted that the Insurance Council of Australia actively promotes localised emergency management planning and flood awareness activities as a mitigation measure that the community should take.

How have the building codes that have been developed in response to cyclones affected the underwriting and pricing practices of insurers and reinsurers?

The State does not consider it useful to provide any further details in this area.

How much weight can be given by insurers to flood mitigation measures in areas subject to flood risk?

No government, whether local or state, would undertake flood mitigation activities if they did not achieve improved outcomes. It is not clear, however, whether the process of an insurer would allow differential pricing based on local circumstances.

Investment in natural disaster mitigation by all levels of government is conservatively estimated to provide a 15 per cent rate of return. Additionally, recent analysis has indicated that in 67 remedial projects for every dollar invested in flood mitigation more than \$2.10 was saved⁸.

To what extent are responses to the recommendations of the Victorian Bushfires Royal Commission expected to reduce bushfire risk in Victoria? How are these responses being reflected by insurers in their pricing of home insurance?

There are difficulties in comparing the approach taken to insurance for bushfire as opposed to flood. Historically, the insurance market has been able to adequately price bushfire risk and provide coverage at a price point that is generally accessible to the Australian community, even where the known risk is high.

Following the Victorian Bushfires, the Tasmanian Government reviewed the arrangements for development and use in bushfire prone areas. As a result, agreed to implement new arrangements to ensure that appropriate standards are consistently applied to the construction of houses and other buildings in bushfire prone areas in Tasmania.

This includes:

- the introduction of a definition of a 'bushfire prone area' for the purposes of applying the relevant national standard for construction; and
- a requirement that all new subdivisions incorporate bushfire mitigation measures, including appropriate separation distances between buildings and bushfire prone vegetation and a certified bushfire safety plan.

A Planning Directive will also encourage high-risk development, such as schools, hospitals and aged care facilities to be located outside of bushfire prone areas if possible.

Another key focus of the Final Report of the Victorian Royal Commission was the importance of tailoring bushfire safety plans to the needs and circumstances of individual communities.

The Tasmanian Government has provided \$2 million over three years to develop community protection plans, with an initial focus on the development of bushfire protection plans for communities most at risk from bushfires. The Tasmanian Government will develop plans for individual councils in consultation with local government, local brigades and other community representatives.

⁸ See Natural Disasters in Australia: Reforming mitigation, relief and recovery. Council of Australian Governments. 2004

These plans will identify:

- where vulnerable people will gather during bushfires, including fire refuges, and identify measures to protect them;
- assets that the community values that will be prioritised for protection during bushfires; and
- egress routes during fires in the event evacuations are necessary.

The Government has also committed \$420 000 over three years to develop maps and other communications materials and strategies. This will assist communities in understanding their local plan.

To what extent are insurers able and willing to undertake repair and reconstruction of a home following a natural disaster so that it incorporates enhancements to improve resilience before formal changes to building standards?

The National Disaster Resilience Strategy states that:

'Following a disaster, recovery efforts may require significant infrastructure reconstruction. Building public and private infrastructure to a more resilient standard, if appropriate, taking into account cost-benefit and other considerations, will reduce the need for significant expenditure on recovery in the future'.

The above statement represents a shared responsibility for improving the disaster resilience of the Australian community and notes that the positive cost benefit of undertaking improvements to infrastructure has been consistently demonstrated.

The Tasmanian Government will continue to work with councils to improve infrastructure owned and maintained by local councils to a higher standard following a natural disaster.

To what extent should decisions on these matters require the agreement of the homeowner?

All impositions on private property beyond those controlled by regulation should be undertaken with the agreement of the property owner.

11. NON-INSURANCE OF HOMES - SHOULD HOME INSURANCE BE COMPULSORY?

Given the high rates of voluntary take up of home insurance, the historical right not to insure and the significant changes to the legislative framework and administrative infrastructure that would be required, is there nevertheless a case for making home insurance compulsory?

The Tasmanian Government is unaware of any case that would justify making home insurance compulsory. Any move to compulsory home insurance would need to be clearly articulated and evaluated. This would provide an opportunity for all costs and benefits of undertaking this intervention to be fully considered.

Is the data that suggests four per cent of owner occupiers do not hold home insurance reflective of the overall level of non-insurance of homes across Australia, taking into account other classes of residential property owners such as strata title property owners, investors, and owners of holiday homes?

The Tasmanian Government has no further comments to provide at this stage.

12. UNDER-INSURANCE OF HOMES

To what extent would the substitution of replacement cover for sum insured cover eliminate the under-insurance of homes?

When the particular hazard is covered by an insurer, the substitution of replacement cover for sum insured cover would address this issue.

This issue could also be partially addressed by the insurance industry taking a more innovative approach to insurance renewals. For example, insurers have opportunities and access to information that could be used to prompt individuals to reassess their insurance arrangements. Upon renewal, the insurer could provide information about recent policies taken out and a range of potential scenarios so an individual can make a relative assessment of their own arrangements. It is acknowledged that some, but not all insurers, upon offering to renew an insurance contract, identify the additional premium that would be incurred if a person elected to increase their insurance coverage.

To what extent does sum insured cover plus 'top up' address the under-insurance of homes?

The Tasmanian Government has no further comments to provide at this stage.

What are the relative merits of replacement cover and sum insured cover with a 'top up'?

The Tasmanian Government has no further comments to provide at this stage.

Whatever form(s) of cover is to be preferred, should insurers be encouraged to offer it or should it be mandated that they offer it?

The Tasmanian Government has no further comments to provide at this stage.

If under-insurance of homes is to be minimised, should homeowners be able to purchase replacement cover only or sum insured cover with 'top up' only, or either? Or are there other possibilities?

The Tasmanian Government has no further comments to provide at this stage.

In the event of total loss of a home, is there a case for changing the practices of insurers around cash settlements and other policies on rebuilding?

The Tasmanian Government has no further comments to provide at this stage.

What arrangements could be put in place to minimise the possibility of disputes if a cash settlement is offered under a replacement cover policy?

The Tasmanian Government has no further comments to provide at this stage.

What factors should be considered in determining whether homeowners should have the right to reject a cash settlement in favour of their insurer arranging rebuilding or repairing?

The Tasmanian Government has no further comments to provide at this stage.

13. NON-INSURANCE AND UNDER INSURANCE OF CONTENTS

To what extent is the level of non-insurance for contents of concern to the community or to governments?

The Tasmanian Government is aware that for low income earners, the decision to insure or not is a complex issue. This point is outlined in the Issues Paper.

The Tasmanian Government does not agree with the suggestion in the Issues Paper that the provision of government assistance in the form of relief and recovery measures (known in Tasmania as the Tasmanian Relief and Recovery Arrangements) is a disincentive for insurance. Relief and recovery assistance is a social welfare policy measure that is specifically designed to assist those members of the community who are unable to provide for their own recovery following a natural disaster. This is why the assistance is appropriately targeted by applying reasonably strict eligibility criteria (for example, income and asset tests set at similar levels to health care card eligibility). Assistance is unlikely to cover the full cost of loss and is net of any insurance.

To what extent is the level of under-insurance for contents of concern to the community or to governments?

The Tasmanian Government has no further comments to provide at this stage.

What measures could be implemented to improve affordability?

The Tasmanian Government has no further comments to provide at this stage.

If premium discounts are to be offered for homes with high flood risk should they also be offered for contents insurance?

The Tasmanian Government has no further comments to provide at this stage.

14. THE ROLE OF LENDING INSTITUTIONS

What level of responsibility do lending institutions have toward themselves and toward their home mortgage customers for:

- *the purchase of insurance;*
- *the scope of insurance cover, and in particular whether it includes flood cover;*
- *the quantum of insurance; and*
- *the continuity of insurance during the life of the mortgage?*

The Tasmanian Government has no further comments to provide at this stage.

15. CONSUMER AWARENESS OF RISK AND INSURANCE

What measures could improve consumer understanding of their insurance cover, particularly if purchased over the telephone?

The Tasmanian Government notes the recent work undertaken in relation to the possible introduction of a standard definition for flood. While this work may improve consumer understanding of their own insurance arrangements, it will not necessarily result in more insurers offering coverage for flood. As noted above, the decision as to whether or not to offer coverage for flood is essentially a commercial decision taken by individual insurers.

While governments can offer general encouragement to the community to understand risk and the relative merits of insurance, recent events, such as the Queensland floods, have shown that the insurance industry needs to more actively promote the value of insurance to the community.

In more general terms, the use of technical flood language does, understandably, cause confusion for the community. This fact was documented in the Report 'Benefits of Flood Mitigation in Australia' produced by the Bureau of Transport and Regional Economics, where it was stated that the South East Queensland community considered that if a once in one hundred year flood occurred 20 years ago, another flood of that magnitude would not occur for another 80 years.

How would consumers benefit from being provided with personal advice that takes account of the insurer's assessment of the consumer's risk?

As noted, when a consumer renews their insurance policy, insurance companies have significant information at their disposal that could prompt consumers to reassess their own insurance requirements based on a number of different scenarios.

What are the benefits for consumers being provided with scaled advice? What, if any, are the impediments for insurers and insurance brokers providing it?

The Tasmanian Government has no further comments to provide at this stage.

Is there a particular need for unfair contracts laws to protect policyholders in natural disaster insurance?

The Tasmanian Government has no further comments to provide at this stage.

16. PROCESSING OF CLAIMS

The Tasmanian Government has no further comments to provide at this stage.

17. RESOLUTION OF CLAIMS DISPUTES

The Tasmanian Government has no further comments to provide at this stage.

18. FUNDING PUBLIC INFRASTRUCTURE

The Tasmanian Government currently administers The Tasmanian Relief and Recovery Arrangements (TRRA) Policy (the Policy) that operates as a financial safety net for Tasmania's 29 councils to assist with the costs of responding to and recovering from natural disasters. The objectives of the policy are to:

- assist with the financial burden imposed upon local governments as a result of extraordinary expenses incurred during and following eligible natural disaster events; and
- ensure financial assistance is delivered in a responsible, cost effective and timely manner.

Unlike the National Disaster Relief and Recovery Arrangements (NDRRA), the Policy may be activated by the Premier where the impact of an eligible natural disaster is a serious disruption to a community. This will involve a consideration by the State of the capacity of a council to fund the response to, and recovery from, the eligible natural disaster and an assessment of the impact on the local community. Once activated, assistance is available once a council's expenditure on eligible relief and recovery measures exceeds its first threshold. More assistance is available if the council's second threshold is passed.

The thresholds are calculated as under the NDRRA. A council's first expenditure threshold is 0.225 per cent of its total general rates revenue and general purpose grants receipts two financial years prior and its second threshold is 1.75 times that amount. Unlike NDRRA, the expenditure thresholds are not activation thresholds.

The eligibility criteria for assistance under the Policy require a council to demonstrate that they have taken all reasonable steps to mitigate the potential impact of natural disasters in their municipality. This may include, but is not limited to councils:

- having appropriate planning controls in place to mitigate the potential impact of natural disasters;
- where available, taking out insurance for council assets where insurance terms are commercially *acceptable to the council* ; and
- having emergency management plans in place to enable a council to effectively respond to a natural disaster.

Assistance is provided to councils to restore an asset to its pre-disaster standard, subject to current planning and developmental controls and building standards. However, with the approval of the State, a council may improve an essential public asset beyond this standard if it is to improve the disaster resilience of the essential public asset.

Would there be benefits to the States in equity and effectiveness if the NDRRA funding formula were to apply to expenditure gross of reinsurance recoveries rather than net of reinsurance recoveries?

The Tasmanian Government considers that the NDRRA is, and should continue to be, a financial safety net for jurisdictions affected by significant natural disasters. The current policy supports the principle of shared responsibility for the costs of natural disasters across all tiers of government.

Tasmania has had a number of significant emergencies over the past decade and has funded almost all of the costs for recovering from these events. The damage caused by the January 2011 floods is the first time that Tasmania has sought assistance from the Commonwealth Government for the replacement of essential infrastructure under the NDRRA. Reimbursement from the Commonwealth Government under the policy is likely to represent less than 20 per cent of the total costs to the State and affected councils.

The Tasmanian Government presently operates a self-funding arrangement covering specific identified insurable liabilities of agencies.

The Tasmanian Risk Management Fund operates on a cost-recovery basis with contributions set to ensure adequate financial provision for the cost of risk now and into the future. All participating agencies pay annual contributions to meet claim costs, administrative expenses and, where applicable, insurance premiums and reinsurance costs. The level of agencies' contributions is determined by an independent actuary and reflects their risk exposure, claims experience and nominated excess amounts. As of 30 June 2011, the fund had reserves of \$178 million.

Tasmania maintains these self-insurance arrangements as the cost of private insurance has previously been found to be prohibitive having regard to Tasmania's risk profile and the likely benefits for the State. As such, the Tasmanian Government agrees with the position taken in the Issues Paper that the judgments made by a state in relation to risk management should, and do, take into account the best arrangements for the state.

What are the impediments to this approach?

The Tasmanian Government has no further comments to provide at this stage.

19. INTERNATIONAL COMPARISONS

Are there particular lessons to be learned from international schemes, whether featured in Appendix 4 or not, that should be considered in evaluating different models for application in Australia?

The Tasmanian Government has no further comments to provide at this stage.

20. CONCLUSION

The Tasmanian Government recognises that insurance is an important strategy for individuals to mitigate their risks from natural hazards, including flood, and to improve the overall resilience of communities. However, it is clear that it is only one measure out of many that can be utilised to achieve this outcome.

The Tasmanian Government considers that any decision on changes to the insurance arrangements for natural hazards should have regards to:

- the roles and responsibilities of individuals in managing private risks;
- the role of governments in supporting individuals to manage private risks;
- the intersection between private risks and public risks, including risks associated with moral hazards;
- the impact of government policies on the ownership of risks from natural hazards and the capacity or likelihood that such risks will be factored into investment decisions; and
- the impact of government policies on community resilience and the ability of communities to own and manage risks at the local level.

Resolution of these issues is fundamental to considering whether government intervention into the insurance market is necessary.