



Australian Government

National Emergency Management Agency

Submission to the Inquiry into Insurers' responses to 2022 major floods claims

NATIONAL EMERGENCY MANAGEMENT AGENCY

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Introduction

The National Emergency Management Agency (NEMA) recognises that the insurance issues currently facing Australia are complex, with households increasingly facing unaffordable insurance premiums with limited options for available home insurance policies. Access to affordable insurance is an important element of a resilient society. Without insurance, people face longer recovery times and need to rely on their own savings or funding from governments or charities to support recovery.

Disasters such as bushfires, floods and cyclones are naturally occurring events, though their frequency, and intensity is increasing due to climate change.¹ The increasing intensity, scale, and frequency of natural hazards, as well as other factors such as a growing population and interconnected and interdependent systems are all increasing disaster risk over time, and causing growing impacts and costs on communities, governments and the insurance industry.

The increase in disaster risk is one component impacting the pricing and availability of insurance. The sheer number, and extent, of flood events in 2022 illustrates the increasing frequency of disasters, which are driving insurance costs higher. Other major drivers include increasing global reinsurance costs, construction and supply chain issues and the worsening global security environment. Many of these issues, which contribute to recovery and rebuilding costs, are likely to be permanent features of the insurance market for the foreseeable future.

The Australian Government is delivering the Hazards Insurance Partnership (HIP) and strategic insurance projects to help communities be better prepared for disasters. In late 2022, the Government allocated \$22.6 million over four years to a series of initiatives to put downward pressure on insurance premiums and better target mitigation investment to help improve insurance affordability over time. This foundational work is required to identify the most pressing insurance issues in areas with high natural hazard risk; target and test the best policy solutions to reduce risk and insurance costs; and support better consumer outcomes via more affordable insurance and a better understanding of insurance products. National leadership through NEMA, an ongoing partnership with industry, and sharing of expertise seeks to achieve the necessary level of coordination to best allocate resources and responsibility between the public and private sector to tackle challenges at the intersection of insurance affordability and availability, and hazard risk.

NEMA welcomes the opportunity to provide a submission to the House of Representatives Standing Committee on Economics' Insurers' responses to 2022 major flood claims, and will consider the findings of the Committee in due course. This submission primarily focuses on home insurance, however NEMA notes the 2022 major floods impacted policyholders for a range of other insurance types including strata, business and motor.

Insurance availability and affordability challenges are complex

Insurance premiums are increasing, and consequently a growing number of households are underinsured or uninsured

Hazard risk is increasing in many areas of Australia, which is driving up the cost of insurance and creating underinsurance issues; more and more Australians are facing unaffordable insurance premiums and accessibility is declining. The Actuaries Institute's 2023 *Home Insurance Affordability Update*,² found home and contents premiums have increased by 28% at the median level and 46% at the mean level between 2022 and 2023. This report also found that in March 2023, 12% of households were experiencing home insurance affordability stress (up from 10% of households in March 2022).

¹ <http://www.bom.gov.au/state-of-the-climate/>

² <https://www.actuaries.asn.au/docs/thought-leadership-reports/home-insurance-affordability-update.pdf>



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While affordability pressures exist across Australia, extreme home insurance affordability stress is concentrated in Northern Queensland, the Northern Rivers region of New South Wales, and North Western Australia. These regions are also characterised by their high hazard risk. The Actuaries Institute affirmed their 2022 findings that exposure to hazards dominates the premiums for affordability-stressed households, where in “23% of affordability-stressed households, over half of the premiums relate to natural perils costs, mostly from exposure to cyclones and floods.”

Disaster risk is one component impacting pricing and availability. Insurers and academics tell governments that other major drivers of increased premium prices include inflation of global reinsurance prices, construction and supply chain issues, and the worsening global security environment.

Insured households have experienced challenges with insurance claims, particularly in relation to the suite of major floods in 2022

The major floods of 2022 were a traumatic experience for affected residents in all the eastern states, plus South Australia, who suffered losses to their homes and/or their livelihoods. In addition to these losses, many insured households and small businesses endured additional challenges when claiming on their insurance policies. These challenges include lack of clarity around what policyholders were (and were not) insured for, lengthy timeframes for resolving claims, poor communication from insurers to policyholders, and delays to internal dispute resolution processes, requiring escalation to external dispute resolutions pathways.

Consumers accepted settlements because of stress of making a complaint

The Australian Securities and Investments Commission's August 2023 report *Navigating the storm*,³ noted that delays with the initial assessment of the repair work needed have led to consumers accepting 'settlements' despite disagreeing with them, as they found the 'increased stress' involved in pursuing complaints to be too great. NEMA's anecdotal evidence aligns with this.

Claim closure rates were slower than normal

The Insurance Council of Australia's (ICA) self-initiated review into their own response to these major flood events, conducted by Deloitte and released in October 2023 (*The New Benchmark for Catastrophe Preparedness in Australia*) found that the rate of claim closures was slower than what would normally be expected in a comparable extreme weather event.⁴ In general, the review found the insurance sector needs to improve its disaster response.

Early resolution rate was lower than for other events

The Australian Financial Complaints Authority, an external dispute resolution scheme established by and for the financial services sector, has already made a submission to this Inquiry.⁵ That submission affirmed the findings of the Deloitte report, noting the early resolution rate for insurance complaints relating to the major floods was 34%, significantly below the 46% 'early resolution rate' of insurance complaints unrelated to the major floods in the same period.

³ Report REP 768 *Navigating the storm: ASIC's review of home insurance claims* pp18-19.

⁴ https://insurancecouncil.com.au/wp-content/uploads/2023/10/The-new-benchmark-for-catastrophe-preparedness-in-Australia_Oct-2023.pdf p23.

⁵ https://www.afca.gov.au/Parliamentary_Business/Committees/House/Economics/FloodInsuranceInquiry/Submissions p5.

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Small businesses face unique insurance challenges

The Australian Competition and Consumer Commission's *Northern Australia Insurance Inquiry* of November 2020 found that significant percentages of small businesses at risk of flood were either under-insured or uninsured, in some cases because of affordability issues.⁶ Many businesses operating in the regions affected by the major 2022 floods were not insured or were underinsured for 'flood cover,' as it is an additional extra in most available policies. Small businesses are the economic lifeblood of many communities, especially in rural and regional areas; their lack of insurance coverage impedes those businesses, and their communities, from recovering from disasters.

Role of the Australian Government in insurance

All governments and industries have a role to play in disaster risk reduction

As a component of insurance premiums are the 'cost' of risk, reducing disaster and hazard risk over the longer term should put downwards pressure on insurance premiums. The Second National Action Plan⁷ (SNAP) is Australia's guiding authority to reduce disaster risk, the implementation plan for the National Disaster Risk Reduction Framework. The SNAP acknowledges that risks are increasing due to factors such as climate change, population growth, decisions on land-use planning, building and urbanisation. The pace of change and increasing rate of severe to catastrophic disasters needs to be met with equivalent action to minimise the creation of new risks, and manage existing risks.

Disaster Ready Fund (DRF)

In line with the policy intention to reduce the risk of disasters at the root cause, on 7 September 2022, the government launched its flagship disaster resilience and risk reduction initiative – the Disaster Ready Fund (DRF). The Australian Government committed \$1 billion to the DRF over five years (\$200m per year), from 1 July 2023 to 30 June 2028.

The DRF allows for investment in disaster mitigation infrastructure and systemic disaster risk reduction projects, to address any, or multiple, natural hazards including extreme weather events and geological hazards. The DRF is a dedicated source of funding for disaster resilience and risk reduction initiatives which aim to:

- increase the understanding of natural hazard disaster impacts, as a first step towards reducing disaster impacts in the future;
- increase the resilience, adaptive capacity and/or preparedness of governments, community service organisations and affected communities to minimise the potential impact of natural hazards and avert disasters; and
- reduce the exposure to risk, harm and/or severity of a natural hazard's impacts, including reducing the recovery burden for governments and vulnerable and/or affected communities.

Government is addressing challenges at the intersection of hazard risk and insurance

In late 2022, following the flood disasters of that year, the Australian Government announced \$22.6 million (over four years) to support six streams of work to better target mitigation investment, to reduce disaster risk and to improve insurance affordability and availability over time. As part of this package of measures, the government established the Hazards Insurance Partnership (HIP) and strategic insurance projects.

⁶ <https://www.accc.gov.au/system/files/Northern%20Australia%20Insurance%20Inquiry%20-%20Final%20Report%20-%2030%20November%202020.pdf> Appendix D.

⁷ https://nema.gov.au/sites/default/files/inline-files/28605%20NEMA%20Second%20Action%20Plan_V10_A_1.pdf



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These initiatives recognise that while the insurance sector is a private market, there are key actions that the Australian Government (and NEMA specifically) can do to bring together relevant stakeholders, improve collaboration and data sharing, build the evidence base for how households and communities can effectively reduce risk (so that it might result in improved insurance affordability or availability), help build a shared picture of risk, and coordinate some of the cross-portfolio policy challenges that are contributing to insurance affordability and availability pressures.

Partnering for collaboration and success

The HIP is a partnership between the insurance industry and Government to ensure we have an agreed agenda on what collectively can be done to address issues at the intersection of hazard risk and insurance, particularly affordability and availability. The HIP is key to ensuring governments and industry understand where to invest to reduce risk, and how risk reduction can result in reduced insurance costs, which can be passed on to consumers.

Building the evidence base for household mitigation opportunities

NEMA is developing a hazard risk Mitigation Measures Knowledge Base to deliver a comprehensive public collection of evidence-based risk mitigation activities. This will ensure property owners, communities and all levels of government have readily available advice on best practice mitigation measures. NEMA will in turn develop a mitigation research program to address knowledge gaps identified through this work.

Communicating risk reduction and mitigation opportunities for households to change behaviours

NEMA is developing a community risk reduction, education and awareness program, to deliver national evidence based guidance on communicating risk and best-practice materials, informed by a national baseline of understanding of the attitude of Australians to risk.

Building a shared picture of risk and insurance coverage and pricing to inform policy and program design

The Australian Government is working with the insurance industry to create an enduring data asset of insurance affordability and underinsurance to inform targeted policy and programs. Simultaneously, NEMA is developing Australia's first National Disaster Risk Profile, prioritising riverine flood as the hazard which has the highest insurance claim impact, to create Australia's first authoritative understanding of current national hazard risk so we can prioritise mitigation effort.

Embedding risk reduction in all policy and program decisions

Decisions around infrastructure, land-use planning, housing and investment have profound implications for community resilience and recovery capabilities; decisions about where to build, work and live can amplify or reduce risks. All levels of government, private sector and the community must work together to ensure disaster risk reduction is embedded so that no additional risks are created. For example, in late 2022, Planning Ministers were tasked by National Cabinet in December 2022 to develop a national standard for considering disaster and climate risk, as part of land use planning and building reform processes.

Government recovery response to 2022 floods

The flood events of 2022 triggered significant assistance from the Australian Government, and the various state governments affected. By May 2022, the former Australian Government had committed more than \$2.3 billion to the NSW flood recovery effort, through Disaster Recovery Funding Arrangements (DRFA), Australian Government Disaster Recovery Payment (AGDRP) and Disaster Recovery Allowance (DRA) and special supplement payments (a brief overview of the assistance provided is in the Attachment).



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NEMA has received anecdotal feedback about the impact of early recovery actions, such as the clean-up and removal of debris, prior to the insurance assessment process impacting on the insurance claim process. Consistent guidelines across insurers and clear education are required for policyholders and response/recovery agencies to ensure that individual policyholders are not adversely impacted through their claims journey.

Disaster Recovery Funding Arrangements (DRFA)

The primary mechanism through which the Australian Government provides financial assistance directly to the states and territories to assist with costs of disaster relief and recovery assistance is the Disaster Recovery Funding Arrangements (DRFA) (see Attachment). This cost sharing arrangement alleviates the financial burden on the states and territories, and facilitates the provision of relief and recovery assistance to disaster affected communities.

NEMA is currently reviewing the DRFA. Following the completion of this review, there will be further discussions among the three levels of government to ensure consistency of response. Relevant stakeholders, such as insurers will be engaged in this process, as insurers currently include clean-up costs within their premiums.

Cross-government programs

The Resilient Homes Fund was established in May 2022. Its funding of \$741m is jointly provided by the Australian and Queensland Governments, and was designed to support those hit hardest by the 2022 south east Queensland floods. The Fund supports eligible homeowners to retrofit or raise their homes so they can return to their normal lives sooner after floodwaters recede, with minimal disruption to family and finances. The Fund allows homeowners to upgrade their homes to make them more disaster resilient, including through the use of better materials. The Fund also allows, in some cases, the voluntary buy-back of homes, which allows residents to relocate to other areas.

On 28 October 2022 the Australian and NSW Governments announced the similar Resilient Homes Program to help Northern Rivers homeowners who had been impacted by severe weather and flooding from 22 February 2022 onwards. The Fund comprised \$700m, funded on a 50:50 basis by the Australian and NSW Governments. An additional \$100m Resilient Lands Program, fully funded by NSW Government, was also announced. This program aims to relocate residents in the Northern Rivers to flood-safe land, therefore significantly reducing insurance affordability for these properties.

Role of the insurance and financial services industry

Insurance sector considers disaster resilience and climate change core challenges for the industry

While a number of insurers have been actively involved in disaster preparedness efforts for many years, insurers have increasingly been turning their minds to the collective effort needed for disaster and climate resilience. NEMA has experienced increased engagement from the sector on the policy challenges associated with resilience, and public discussion of these challenges. For example, the Insurance Council of Australia's 2023 Annual Conference's core themes were focused on insurance affordability, climate change and lessons from the floods.

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Complex policies can create confusion and accidental underinsurance for consumers

Given the complexity of most insurance policies – including technical and legal definitions – many consumers and their advocates have called on the industry to make policies simpler and fairer.⁸ Consumers and their advocates have also raised concerns about the opacity of the 'hazard risk' component of their premium. Some consumers and their advocates have expressed that there is a sense of 'unfairness' surrounding the complexity of claims and rejections based on different kinds of flooding or inundation.

The sector has increased on the ground engagement with communities

NEMA is aware that the insurance sector has increasingly hosted community consultations, forums and town hall events, to help understand the issues facing local policyholders in disaster affected regions, and to work through any outstanding issues they may have with their insurer.

Mitigation and risk reduction activities should be reflected in premiums

Some insurers have undertaken pilots and programs to work directly with households to reduce their risk, and have this mitigation activity reflected in their insurance premium. The industry is encouraged to expand these programs, and seek innovative business solutions to price mitigation 'discounts' into premiums.

Conclusion

In the short term, insurers should reflect on lessons learned through the major floods of 2022, and embed these learnings into current and future business practices so they are best placed to support households and communities to recover. The insurance and financial services industry should harness the findings of this Inquiry to bring forward meaningful market innovation to ensure that the Australian insurance sector remains fit-for-purpose in the face of a changing climate.

This will be essential if the insurance sector is going to meet the increasing needs of the Australian community in response to more frequent and significant disasters.

The Australian Government will continue to work with households and communities to prepare for, respond to and recover from disasters. Over the longer term, reducing disaster risk is critical to supporting households and communities to be more resilient in the face of future disasters, as well as to put downwards pressure on insurance premiums.

⁸ <https://www.financialcounsellingaustralia.org.au/docs/weathering-the-storm-insurance-in-a-changing-climate/>

AUSTRALIAN GOVERNMENT ASSISTANCE IN THE FLOODS

The Australian Government, through NEMA and its predecessor agencies, provided significant support to those impacted by the 2022 floods.

South-east Queensland and northern New South Wales floods of February-March 2022

From 22 February 2022 to 7 March 2022, New South Wales (NSW) and Queensland experienced widespread and heavy to intense rainfall that culminated in significant flood events in northern NSW (the Northern Rivers region) and south-eastern Queensland. Millions of Australians were impacted by the flooding, and 21 lives were lost.

- In Queensland, almost 7,000 homes and 10,000 commercial properties were damaged.
- In New South Wales, 7,477 homes were damaged, with the biggest losses in the Northern Rivers region.

Joint Commonwealth-State disaster assistance was activated through the Disaster Recovery Funding Arrangements (DRFA) for 23 local government areas in Queensland and 62 in New South Wales. Key initiatives included:

- Resilient Homes Fund (\$741 million joint funding with Queensland and \$700 million joint funding with NSW), with three components:
 - Voluntary Home Buy-back
 - House Raising
 - House retrofitting

Joint initiatives of the Australian and Queensland Governments included:

- \$174.7 million for human and social initiatives like mental health services and accommodation support
- \$177 million for economic recovery, including loans for medium-to-large businesses, grants for rural landholders, and support for small businesses and tourism operators
- \$180 million to rebuild, recover and strengthen community and recreational assets
- \$59.9 million for environmental recovery, including \$31 million for flood risk management
- \$150 million Betterment Fund for councils and state agencies to improve the resilience of essential public infrastructure
- \$30 million clean-up package for beaches, waterways and parks
- \$24 million local recovery and resilience grants

Initiatives in partnership with NSW included:

- \$300 million Clean-up Package to assist with the clean-up and removal of flood and storm related damage, debris and green waste
- \$312.5 million Regional Roads and Transport recovery package
- \$183 million in Back Home grants to help cover the costs of restoring properties to habitable conditions or replacing essential household items
- \$150 million Primary Industry Support Package to identify flood mitigation projects and provide detailed mapping and modelling to inform future planning and investment
- \$27 million in Rental Support payments to help residents unable to live in their home due to storms and floods
- \$142 million Flood Property Assessment Program to provide residents with free, detailed assessment reports including a scope of repair work and costs
- \$70 million Aboriginal Housing Recovery Program to repair and upgrade flood damaged properties in affected regions
- \$165 million Northern Rivers Business Support Package for small, medium and anchor businesses in highly-impacted local government areas
- \$36m Construction of new flood levees

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Solely Australian Government funded programs included:

- \$75 million each for Queensland and NSW from the Emergency Response Fund for flood mitigation and infrastructure works.
- \$11.2 million for the Northern Rivers Resilience Initiative to inform the allocation of \$150 million funding from the Emergency Response Fund to improve the region's flood preparedness and flood resilience and inform longer-term mitigation measures.

Hunter and greater Sydney floods of July 2022

A range of disaster assistance programs was provided by the Australian and the NSW Governments including:

- A one-off financial assistance payment (the Australian Government Disaster Recovery Payment (AGDRP)) to eligible people affected by the 2022 floods. The rate of the payment is \$1000 per eligible adult and \$400 per eligible child.
- 13 weeks of income support (the Disaster Recovery Allowance (DRA)), for employees, primary producers and sole traders who can demonstrate they have experienced a loss of income as direct result of the floods.
- NEMA deployed recovery support officers across regions affected by the 2022 floods. These officers were in close contact with local emergency management structures and supported recovery centres. They were also available for assistance at nominated assistance points.
- Recovery assistance under the jointly funded Commonwealth-State Disaster Recovery Funding Arrangements (DRFA) was made available to local government areas impacted by the severe storms and flooding. This jointly funded assistance was administrated by the NSW Government.

Victorian, NSW and Tasmanian floods of October 2022

In October 2022 excessive rain was experienced in much of south-eastern Australia. NSW, Victoria and Tasmania all experienced flooding. There was widespread flooding in Melbourne's suburbs near the Maribyrnong River, and in northern Victorian towns such as: Shepparton, Rochester and Echuca. This was one of the most devastating flood events in Victoria's history. The Australian Government supported impacted communities through:

- One off payment of \$1000 for eligible adults and \$400 for children through the Australian Government Disaster Recovery Payment (AGDRP).
- Up to 13 weeks of income support payments to eligible employees and sole traders through the Disaster Recovery Allowance (DRA) was made widely available (in 78 local government areas in NSW, 63 in Victoria, and 18 in Tasmania).

Jointly funded disaster assistance was made available for:

- Emergency relief assistance (DRFA Category A – assistance to individuals)
- Emergency re-establishment assistance (DRFA Category A)
- Removal of debris (DRFA Category A)
- Assistance for small business, primary producers and non-profit organisations (DRFA Category B – assistance to restore essential public assets)
- Assistance to State Agencies and Local Councils (DRFA Category B)
- State-wide clean-up (DRFA Category C – assistance for severely affected communities)
- Community Recovery Officers (DRFA Category C)
- Business and Not-For-Profit Organisation grants (DRFA Category C)
- Medium-large business grants (DRFA Category C)
- Business Chamber and Trader Group grants (DRFA Category C)
- Primary Producer grants (DRFA Category C)
- Rural Landholder grants (DRFA Category C)
- Business recovery support package (DRFA Category D – exceptional circumstances assistance)
- Primary Producer recovery support package (DRFA Category D)

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Central West NSW floods of November and December 2022

New South Wales, from the Hawkesbury River to the Queensland border, experienced severe storms, and flooding in early 2022. The situation escalated in November when floods devastated the Central West. The Australian Government extended an array of assistance measures to support the recovery of affected communities.

Key funding support included:

- One-off financial assistance via AGDRP to eligible people affected by floods (\$1000 per eligible adult and \$400 per eligible child).
- 13 weeks of income support payments to employees, primary producers and sole traders who can demonstrate they have experienced a loss of income as direct result of the floods (DRA).
- Recovery assistance under the jointly funded Commonwealth-State Disaster Recovery Funding Arrangements was made available to local government areas impacted by the severe storms and flooding (this jointly funded assistance was administrated by the NSW Government).

On the 8 November 2023, additional funding was committed by the Australian and NSW Governments to help the NSW Central West region recover from the floods and build resilience for the future. This funding of \$100 million included:

- \$32 million for enhancing the resilience of regional transport infrastructure through the Regional Transport Resilience Fund.
- \$25 million allocated to the Community Assets Program, focusing on repairing and replacing critical community assets and improving public infrastructure resilience.
- An estimated \$1 million allocated for legal aid assistance, providing crucial support to those navigating legal challenges post-disaster.
- Approximately \$2 million designated for the Central West Housing Consultation Program, aimed at consulting and planning resilient housing solutions.
- An additional \$40 million (in principle agreement) is set aside for a resilient housing program designed, the Central West Housing Program to aid housing against future disasters.

