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We welcome the opportunity to provide this input.

VCOSS Submission to the Inquiry into insurers' responses to 2022 major floods claims

Executive Summary

Victoria experienced one of the worst flooding events in the state's history in October 2022. Thousands of homes were inundated along the Campaspe, Goulburn, Maribyrnong and Murray Rivers, impacting the western suburbs of Melbourne and regional towns in north and west Victoria.

A year later, too many Victorians are still displaced and have not yet been able to safely return home. The community sector has been providing vital recovery services to flood-affected communities and points to insurance issues as a key driver of their housing insecurity – alongside the lack of affordable housing options that already existed pre-flood.

Post-disaster insurance processes have retraumatised flood-affected Victorians and delayed people's return home, further harming their recovery journey. Insurance premiums are also rising and pushing low-income households to reduce their coverage or drop it entirely.

The laws and regulations that govern the insurance industry need to be reformed, particularly to ensure that customers can safely return home as soon as possible. Downward pressure can also be put on spiralling premiums by expanding the Resilient Homes Fund to all states and territories so all Australians can reduce their disaster risk.

This Inquiry is an opportunity to start making insurance fit-for-purpose as disasters continue to build in frequency and severity. It should also consider insights from the development of the National Housing and Homelessness Plan.

Make insurance fit-for-purpose

Recommendations:

Reform the *Insurance Act 1973* and Insurance Regulations 2002 to improve outcomes for disaster-affected customers.

Make the General Insurance Code of Practice mandatory and introduce stronger commitments for assisting disaster-affected customers.

The October 2022 floods destroyed and damaged thousands of homes across Victoria and will displace households for years. A year on, around 500 homes are empty in the flood-affected town of Rochester alone and around 300 caravans are parked on properties while residents wait for repairs to finish.¹

The community sector has been helping Victorians navigate flood recovery and the most common issues raised by VCOSS members are insurance and housing. This includes financial counsellors and community lawyers who have been helping insured homeowners negotiate with insurance agencies and escalate complaints to the Australian Financial Complaints Authority.

Bureaucratic challenges are difficult to handle at the best of times, let alone when dealing with trauma, displacement and financial hardship. Issues experienced by insured homeowners include:

- Delayed assessments and rebuilding works.
- Unfair assessments leading to insufficient scopes of works and low cash settlements.
- Rental assistance ending before rebuilding works are complete.
- A lack of trauma-informed practice by customer-facing staff members of insurance agencies.

¹ B Preiss, *Rochester residents battle depression, displacement a year on from floods*, The Age, 15 October 2023.

The lengthy delays are particularly concerning because housing insecurity hinders people's recovery journeys and exacerbates financial stress. 40 per cent of insurance claims made in Rochester since the floods are still outstanding.²

“The water hung around for so long. The walls are cracking and the house is damaged. Insurance people keep coming through but they never follow up, they never bring what they need. They’ve even claimed the damage was caused by stormwater.”³

The Commonwealth Government should reform the Insurance Act 1973 and Insurance Regulations 2002 to improve outcomes for disaster-affected customers including:

- Introducing set timeframes for assessments and rebuilding works to be completed after extreme weather events.
- Requiring insurance agencies to cover rental costs until rebuilding works are complete.

The Commonwealth Government should also make the General Insurance Code of Practice⁴ mandatory for all insurance providers, and amend it to bolster equity and fairness such as by including the following:

- Under ‘Assessing your claim’, commit insurers to attributing damage to disasters and not pre-existing issues unless it is unreasonable to do so.
- Under ‘Cash settlements’, commit insurers to calculating the sum using reasonable quotes that take into the account the higher cost of labour and materials after disasters.
- Under ‘How we respond to Catastrophes’, commit insurers to providing customer-facing staff members with training in trauma-informed practice.

Ensure insurance is accessible for all

² T Dalton and S Schubert, *One year since Rochester's worst flood, hundreds of residents are still waiting for their homes to be rebuilt*, ABC News, 12 October 2023.

³ An attendee at a listening session VCOSS convened with flood-affected residents in Echuca.

⁴ Insurance Council of Australia, *General Insurance Code of Practice*, 1 October 2023, available at: [insurancecouncil.com.au/cop](https://www.insurancecouncil.com.au/cop)

Recommendations:

Expand the Resilient Homes Fund in Queensland to all states and territories.

Improve the accessibility and fairness of information about insurance by amending the General Insurance Code of Practice.

Community services are seeing more households reducing their insurance coverage or dropping their policy entirely due to rising premiums and cost of living. A nationwide representative survey of insurance holders by consumer advocacy group CHOICE in May 2023 found that 87 per cent had premium increases with their most recent renewal notice, and in the past three years 11 per cent had reduced their coverage and 5 per cent had removed flood cover.⁵

Confusing and complex product information can also lead to under- and non-insurance because customers may be unaware they are not covered for certain disasters. Inaccessible information particularly impacts people with limited English skills.

Under- and non-insurance entrenches financial hardship and pushes people into housing insecurity and homelessness. Some people also returned to flood-affected homes that had not been repaired, risking the health impacts of mould and extreme temperatures in summer and winter.

“Flood insurance will be unaffordable around here from now on. My home’s worth nothing now.”⁶

Insurance premiums will continue to rise as the frequency and severity of disasters keeps increasing due to climate change. By 2030, 2.6 per cent of homes in Victoria will be high-risk and effectively uninsurable including 56 per cent in the Local Government Area of Greater Shepparton.⁷

Improving the resilience of homes in disaster-prone areas will reduce the insurance industry’s risk and should flow through to lower premiums for households. The Commonwealth Government can facilitate this by expanding the Resilient Homes Fund in Queensland to all

⁵ CHOICE, *Weathering the Storm: Insurance in a changing climate*, August 2023.

⁶ An attendee at a listening session VCOSS convened with flood-affected residents in Echuca.

⁷ Climate Council, *Uninsurable Nation: Australia’s most climate-vulnerable places*, May 2022.

states and territories and prioritising low-income households who cannot afford to retrofit or raise their home without assistance.⁸

The Commonwealth Government can also reduce under- and non-insurance by improving the accessibility of information about insurance products. This could be achieved by amending the General Insurance Code of Practice⁹ to improve the accessibility and fairness of information for customers, such as by including the following:

- Under 'Buying insurance', commit insurers to providing insurance information in plain English (not just taking reasonable steps) and including a list of what extreme weather is and is not covered.
- Under 'Buying insurance', commit insurers to providing translated insurance information in all required languages.
- Under 'Using interpreters', commit insurers to providing interpreting services in all circumstances (not just where practicable).
- Under 'Automatic renewal', commit insurers to notifying customers when their sum insured no longer covers the full rebuilding costs (rather than suggesting consumers check this themselves).

⁸ Queensland State Government, About the Resilient Homes Fund, accessed 20 October 2023, available at: www.qld.gov.au/housing/buying-owning-home/financial-help-concessions/resilient-homes-fund/overview/about

⁹ ICA, *General Insurance Code of Practice*: insurancecouncil.com.au/cop