

## NATURAL DISASTER INSURANCE REVIEW

### Terms of Reference

#### Background

1. Recent widespread flooding and other extreme weather events have caused devastating losses across the nation. These losses have been borne by individuals and businesses, State and local Government, community organisations, the Australian Government, private insurers, and reinsurers.
2. The Australian Government seeks to ensure that:
  - a) Individuals and communities affected by the floods and other natural disasters are able to recover and rebuild as quickly as possible.
  - b) People are able to choose where they live in an informed way.
  - c) Individuals and communities at risk of future flooding or other extreme weather events are aware of the risks but are able to obtain suitable protection against those risks, both in terms of having access to insurance and benefiting from appropriate mitigation strategies.
3. The Australian Government is concerned to ensure that the appropriate national measures are in place to foster more complete sharing of risk and equitable sharing of the cost of damage and loss resulting from floods and other natural disasters throughout the nation. This Review is established to examine how best to achieve these objectives.
4. The National Strategy for Disaster Resilience adopted by COAG on 13 February 2011 outlines the shared responsibility of individuals, governments, businesses and communities in preparing for, and responding to, disasters.
5. As part of the National Strategy, the Commonwealth, States and Territories will be working together to support strategies to foster greater individual and community resilience, including having adequate and appropriate levels of insurance cover, and the Heads of Treasuries will provide a report to the National Emergency Management Committee (NEMC) on insurance by the end of 2011.
6. This Review provides an opportunity for an independent review of issues relating to insurance in light of the recent disasters, in the context of the long term funding of disaster relief. The Assistant Treasurer and the Attorney-General will provide the outcome of the Review to the Heads of Treasuries for consideration in the context of their report to the NEMC.

#### Objective and scope

7. The Review should be guided by the following principles:

- a) Government intervention in private insurance markets is justifiable only where, and to the extent that there is clear failure by those private markets to offer appropriate cover at affordable premiums.
  - b) The appropriate mitigation of risk by individuals and governments at all levels is a key objective.
  - c) Individuals and businesses should be encouraged to insure themselves where practicable.
8. The Review will consider the arrangements for the insurance of the assets of Australian individuals, small businesses and governments for damage and loss associated with flood and other natural disasters. In particular, the Review will consider:
- a) The extent of, and reasons for, non-insurance and underinsurance for flood and other natural disasters in Australia.
  - b) The ability of private insurance markets to offer adequate and affordable insurance cover for individuals, small businesses and governments for flood and other natural disasters.
  - c) Factors that may impede the private insurance market in offering such cover.
  - d) Measures that could improve the ability of the private insurance market to offer such cover and the take-up of such cover by individuals, small businesses and governments.
  - e) The need for any further measures to enhance:
    - i. consumer awareness and understanding of the scope and coverage of available insurance products.
    - ii. claims management, dispute resolution and consumer assistance and advocacy services.
  - f) The effect or likely effect of the recent floods and other natural disasters on future insurance premiums in respect of such cover.
  - g) Whether there is a case for subsidising insurance premiums for individuals and small businesses in the areas of highest risk facing the highest premiums.
  - h) Whether there is a role for the Commonwealth Government in providing disaster insurance or reinsurance to the private sector, through mechanisms such as a national disaster insurance program, and, if so, what are the best options.
  - i) The impact or likely impact of any Commonwealth Government intervention in disaster insurance on the private insurance market.
  - j) The relationship between disaster mitigation measures taken by State and local governments against flood risks, and the impact of such measures, or the lack of them, on the availability and affordability of flood and other disaster insurance.

9. The Review will also consider whether the existing Commonwealth and State arrangements for dealing with natural disaster recovery and resilience should be supplemented by the establishment of a national disaster fund to support the rebuilding of public infrastructure in the aftermath of events such as the recent floods.

#### **Composition and consultation**

10. The Review Panel will be chaired by Mr John Trowbridge, with Mr John Berrill and Mr Jim Minto as members.
  - a) The Review Panel will be assisted by the Australian Government Actuary, Mr Peter Martin.
  - b) The Review Panel will be supported by a working group from within the Treasury, with representation from the Department of Finance and Deregulation and the Attorney-General's Department, and drawing on other government agencies as appropriate.
  - c) The Chair may task members of the Review Panel to oversee programs of work related to their field of expertise.
  - d) The Review Panel will consult with the public to allow for community and business input.
  - e) The Review Panel will consult with State and Territory governments.
  - f) The Review Panel will also, where necessary, draw on external expertise and comparative international best practice.
  - g) The Review Panel should provide a final report setting out its recommendations to the Assistant Treasurer by no later than 30 September 2011.
  - h) The final report will also be provided to the Commonwealth Attorney-General as chair of the Ministerial Council for Police and Emergency Management – Emergency Management (MCPPEM-EM) for consideration in implementing the National Strategy for Disaster Resilience as agreed by COAG in February 2011.