

Submission on the impact of climate risk on insurance premiums and availability

Submission created by Heather Woodrow

Introduction:

I would like to present this submission for the consideration of ideas that support the reduction of insurance premiums and availability of insurance for people in every Australian home that may be impacted by natural disasters.

My interest and concern for people who lose their place of residence due to natural disaster comes from experience of working with individuals and families impacted by the 2022 floods in the Goulburn Valley as a Team Leader for the Goulburn Flood Recovery Service (GFRS). I also have personal experience of bushfire disaster, living in Beechworth during the Black Saturday Bushfires of 2009 and working with the then Department of Human Services on recovery services to the communities impacted by the fires.

Whilst my knowledge of the insurance industry may be rudimentary, my understanding of the impact of natural disasters on people and communities is extensive. I have given considerable thought to a process that could be applied nation-wide. A process that allows all people to feel secure and to move through the recovery process with dignity. My thoughts also considered how people might best be supported during times of natural disaster in a way that is equitable, accessible and affordable and dignified for everyone.

The core ideas within this submission may require people with greater understanding and insight than I to finesse. I put forward these ideas as a basis, or framework for consideration of how the central concepts of this submission may be successfully operationalised.

The ideas:

The premise of the idea is that people who own or rent homes that are rendered uninhabitable, or destroyed by natural disaster will have immediate financial relief available to them without delays or the need to complete applications for eligibility.

Every single private residence in Australia will be included in one or both of the two proposed schemes.

Working with GFRS, I witnessed many people who lost their homes in the flood (not to be rebuilt) because they had not been able to afford insurance. There was no option for them to rebuild, or even to afford to move into rental accommodation.

The State Government and many charitable organisations supported these people to find and pay for interim accommodation until they could sort out their financial situations and secure financial support and rental accommodation. The staff at GFRS worked alongside the charitable organisations to provide fridges, washing machines, beds, furniture, towels, bedding, household goods, food, counselling and advocacy support. Whilst it was rewarding work, it was a hugely time-consuming and expensive task, but one that needed to be done. It should be noted that many people did not wish to engage with the flood recovery service for varying reasons (pride, self-reliance, fear of judgement, cultural beliefs etc.). Many of these people eventually came to engage with the service after a period of time – mostly due to their inability to find and secure appropriate accommodation and financial support.

Those people who had insurance, were often in the same predicament as the uninsured for a period of time. The waiting time was considerable as there were delays in having their property assessed by their insurer (due to the number of properties impacted by the flood at that time, and the delay in accessing the area in order to have the damage assessed). Because of the delays, these people also often needed the same level of support to find alternate accommodation and to furnish them with the same range of basic household items as the people without insurance required. Many believed that they were not entitled to the services of GFRS because they had insurance payments coming.

People generally felt considerable financial pressure during this time, as they were still required to pay their rates, service charges, mortgages etc. on their property even though it was uninhabitable, or completely destroyed. Whilst these circumstances are specific to a flood, I imagine the situation of people who have lost their homes due to any other type of natural disaster would be the same as the experience of people impacted by floods.

Scheme One: Private residences

If homeowners had access to a lump sum payment, say \$100,000, they would have the resources to pay for interim accommodation, and all necessary household goods, whilst they waited for their insurance payout. The funds can be used flexibly, but the understanding is that whilst a portion of the funds would be for immediate relief needs, people would be

supported to utilize the remaining portion to support the preparation for rebuilding, or purchase of another dwelling.

Payments would be provided with written financial advice and the offer to have an appointment with a financial counsellor to support their spending on recovery measures.

The payment would be the same for every eligible homeowner regardless of the property being a permanent place of residence, an investment property, or a holiday home. Payments would not differ between homes regardless of the value or location of the property.

Payments would be financed through a disaster relief fund administered by the Federal Government. This provides opportunities for any surplus funds that may accumulate over time to be allocated to high-risk areas to support the implementation of projects designed to mitigate the impacts of natural (climate) disasters. Collection of funds would be undertaken by local governments across the country when rates are paid. A flat rate payment of \$100 per home would apply regardless of the location, type or size of the dwelling. Average homes, small homes, mansions, farm houses, town houses, flats, duplexes, units or any other singular rateable private dwelling would pay a levy, and be eligible for the \$100,000 disaster relief funding.

My understanding is that there are close to 12 million private dwellings in Australia which would provide adequate funding for this scheme.

Advice on the spending of the payouts will be provided and people will be required to acknowledge having read and understood the advice prior to payment being forthcoming.

Scheme Two: Renters

People who rent would be required as part of their lease terms, to present a certificate of compulsory insurance to be recorded on the lease agreement. This would be an insurance policy with a set low cost that is transferrable to any property a person/s inhabits on a rental arrangement. The lease agreement would be updated each time the insurance was renewed with current details.

I am suggesting the compulsory insurance is a low cost, say \$20 per dwelling. I see that National (Australian owned) Insurance Companies would administer the insurance under government guidelines. Funds generated would be approximately \$80,000,000 in insurance premium income (based upon Australia having 30-35% of dwellings privately rented).

Payments would be based upon the same eligibility parameters as described above. A natural disaster needs to be declared by government and the property in question must be uninhabitable (or destroyed). If there is more than one person on the lease agreement, the \$20,000 payout will be split evenly and deposited into the individual bank accounts of the tenants listed on the lease. Again, there would be advice provided to recipients that needs to be read and agreed to prior to payment being made.

People can use the funds to secure another rental property and replace their basic furniture and whitegoods. This insurance does not preclude people from fully covering their contents under a separate insurance policy. Financial advice would be provided with the payment, and the offer for a financial counselling appointment made at the time.

Addressing the Committee's Terms of Reference:

(a) The unaffordability of insurance in some regions due to climate-driven disasters.

The percentage of uninsured properties (both building and contents) is increasing significantly with the associated increase in the cost of insurances. The demographic profile of the uninsured was previously correlated with particular ages/stages of life, people born in non-western countries, people on pensions, people with low educational achievement and the unemployed (or underemployed). This demographic has changed since the significant increase in the cost of living and especially cost of rents and mortgages and now includes many thousands of non-insured related directly to unaffordability – more especially in regions at high risk of climate-driven disasters.

By having a compulsory insurance cover specifically for natural disaster, individuals can choose to either remain uninsured for other incidents or events, or to take up insurance coverage for building and/or contents, with or without natural disaster coverage included. Insurers should be able provide far more affordable insurance coverage with the Compulsory Disaster Insurance Policies in place. This being the case, the insurers will likely see an increase in the take up of insurances for private dwellings as affordability improves.

(b) The unavailability of insurance for some people due to climate-driven disasters.

With Compulsory Disaster Insurance Policies in place, every person, be they home-owner or renter will be covered for climate-driven disasters.

Having a guaranteed payment in case of climate-driven disasters allows all people to move through the recovery process with dignity. The process is equitable across all demographics and areas prone to high-level risk from disasters driven by climate change.

Whilst some renters may choose not to have their contents covered by insurance, the compulsory nature of the scheme will likely see higher returns for insurers who provide the compulsory component of insurance for renters.

(c) The underlying causes and impacts of increases in insurance premiums.

Insurance premiums will be able to be offered at more affordable rates due to the compulsory insurance coverage being guaranteed for climate driven disasters. Much lower and more competitive rates should be able to be offered for the non-compulsory components of insurance.

(d) The extent to which increased climate risk is being priced into insurance products not exposed to climate-driven risks.

I believe that the proposed schemes will nullify this issue.

(e) The distributional impact of increases in insurance premiums across communities, demographics and regions.

I believe that the proposed schemes will nullify this issue.

Compulsory Disaster Insurances will support the lowering and leveling out of insurance premium costs nation-wide.

(f) The role of governments to implement climate adaptation and resilience measures to reduce risks and the cost of insurance.

Management of the insurance fund for private dwellings may be undertaken by the Federal Government's Department of Climate Change, Energy, the Environment and Water. The way that the money is managed will be crucial to the funding of measures to reduce the risks associated with climate change.

By investing in secure instruments such as interest-bearing cash investments and treasury bonds, any accumulated funding (excess to a preserved pay-out amount in case of disaster) can be directed to invest in climate adaptation and resilience measures that will support the reduction in the cost of insurance.

(g) How the pricing risk from climate-driven disasters can be better redistributed across the economy.

Compulsory insurances will evenly reduce and distribute the cost burden of insurance pricing nation-wide.

Key advantages of the schemes:

- Regardless of the type of natural disaster, these schemes will provide security to all, and immediate payouts to support people early in the recovery process.
- Private insurance pricing should be able to be significantly reduced.
- Private insurers will profit from the compulsory rental component of the scheme.
- Homeowners and renters will have immediate financial independence and discretion on spending in the first stages of recovery.
- Financial counselling support will be offered to enhance the recovery process.
- No need for government to undertake the costly process of assessing and arranging for one-off payouts to affected residents during a disaster.
- The timeframe for commencing recovery would be far more efficient and significantly reduce the administrative and financial burden currently assumed by Local, State and Federal governments to assess and provide financial support to victims of natural disasters.

This submission was submitted by:

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