



**ACIL Submission: Inquiry into insurers' responses to
2022 major floods claims**

About Us

We are a leading consumer advocacy group dedicated to addressing pressing consumer issues associated with general insurance. Our organisation is committed to minimising the cost of living pressures by tackling the challenges of affordability and availability of insurance. We firmly believe that all Australians should have access to affordable and comprehensive insurance coverage that protects their interests and financial well-being.

In addition to advocating on the crucial issue of affordability and availability of insurance, we proactively tackle practices by industry stakeholders that are deemed detrimental to consumers. We closely monitor and challenge unfair practices, and any actions that undermine the rights and interests of policyholders. Our goal is to create a fair and transparent insurance market where consumers are treated with respect and their rights are upheld.

Our Mission

At ACIL, our unwavering commitment revolves around three fundamental missions:



Advocate for affordable and accessible insurance.



Protect consumer rights and interests.



Influence positive change in the insurance industry.

Meet the Team

Our committee boasts a balanced mix of consumer representatives, who provide crucial insights into consumer needs, with consumer-centric insurance professionals, ensuring a comprehensive understanding of the insurance industry, to effectively advocate for consumer interests.

Insurance Professionals



Tyrone Shandiman
Chairperson



Eva Jones
Secretary



Peter Marer
General Committee Member

Consumer Representatives



Bradley von Xanten
Treasurer



Pamela Farrell
General Committee Member



Dawn Romanella
General Committee Member

Background

In 2022, Australia witnessed a series of major floods that left a profound impact on communities, infrastructure, and the insurance industry. These devastating flood events, characterised by widespread inundation, property damage, and displacement of residents, brought to the forefront the pressing need for comprehensive reforms. For insurers, the challenges were multifaceted. They found themselves ill-prepared for an event of this scale, which resulted in an overwhelming volume of flood-related claims. Additionally, significant delays in processing claims ensued due to critical shortages of skilled tradespeople, hydrologists, and assessors. Consumers, on the other hand, faced the daunting task of navigating complex insurance processes and grappling with uncertainty about coverage, the reconstruction process, all while, in some cases, their homes were rendered uninhabitable. The 2022 major floods underscored the vulnerabilities within the current flood insurance landscape, highlighting the necessity for proactive measures to enhance preparedness, response, and recovery efforts.

The purpose of our submission is to advocate for enhanced flood mitigation strategies, improved insurer preparedness for catastrophic flood events, and the establishment of a Federal Flood Reinsurance Pool. In light of the 2022 major floods and their impact on communities and the insurance industry, we aim to highlight the urgent need for proactive measures to reduce flood-related claims, address market failures, and bolster Australia's resilience in the face of future flood events. Through this submission, we seek to provide evidence-based recommendations that will contribute to a more resilient, prepared, and financially stable Australia in the wake of catastrophic floods.

Consumer Issues

We recognise the critical need for consumer representation in the ongoing flood inquiry. While we currently lack sufficient consumer data to provide specific feedback, we firmly believe that the consumer perspective must be heard alongside industry stakeholders who have substantial resources at their disposal. To this end, we are seeking funding from the Inquiry to conduct a series of Consumer Forums to fulfill the following objectives:



Promotion of the Inquiry: We intend to raise awareness about the inquiry through extensive marketing efforts, including media presence at the forums.



Collective Consumer Voice: The forums will provide a platform to gather the voices and perspectives of consumers affected by the 2022 Floods.



Industry Engagement: We aim to invite representatives from the insurance industry to attend the forums, enabling them to listen directly to consumer concerns and issues. This will foster a better understanding of the challenges faced by consumers.



Education on Making Submissions: We will offer education and guidance to attendees on how to effectively make submissions to the inquiry.



Report and Recommendations: At the conclusion of the forums, ACIL will compile and present a comprehensive report summarising our findings and recommendations, which we believe will contribute significantly to the inquiry's objectives.

As a volunteer-driven organisation, we commit to cost-effective forum management, with the main expenses expected to cover venue hire, audio-visual equipment, and marketing. We kindly request your consideration of a funding proposal to enable these Consumer Forums, aligning with

your expectations and guidance on logistical aspects. We have composed a letter addressed to the minister and the inquiry, formally requesting funding for the purpose of conducting consumer forums, ensuring the consumer voice is heard.



Recommendation: We recommend that the federal government collaborates with ACIL to host consumer forums, ensuring the meaningful and inclusive representation of consumer perspectives at this inquiry.

Insurer Preparedness

In the wake of the 2022 major floods, the readiness and response of insurers came under scrutiny as they grappled with the unprecedented scale and impact of the flooding events. Insurers were faced with a formidable challenge, one that revealed both strengths and areas in need of enhancement.

A key area requiring improvement was insurers' preparedness for an event of this magnitude. The scale of the flooding caught many insurers off-guard, resulting in delays in processing claims and challenges in adequately estimating the extent of damage. Furthermore, shortages of skilled tradespeople, hydrologists, and assessors contributed to significant delays in assessments and claims settlements, leaving policyholders in a state of uncertainty and frustration. Insurers also encountered hurdles in streamlining the claims process, particularly when dealing with complex flood-related coverage issues and policy disputes.

Insurers are currently mandated to demonstrate stringent capital requirements to ensure they can financially cover claims. However, there is no corresponding requirement imposed on insurers to demonstrate their capability to effectively support clients during major catastrophe events. Therefore, we recommend making it a mandatory condition for insurers holding an insurance financial services license to establish a catastrophe-ready plan. This plan should adhere to criteria established by the government, ensuring that insurers are well-prepared to provide comprehensive support to policyholders in times of crisis, encompassing all necessary resources and measures to mitigate claim-related challenges.



Recommendation: We recommend the federal government introduce a mandatory requirement for insurers holding an insurance financial services license to develop and maintain a catastrophe-ready plan, meeting government-set criteria.

Mitigation

Mitigation strategies are of paramount importance within the framework of this inquiry. Their significance lies in the potential to significantly curtail flood-related claims, thereby mitigating the adverse impacts of floods. By actively investing in mitigation and resilience efforts, we not only reduce claims but also enhance the capacity of insurers and the building industry to respond effectively to those that do arise.

Opportunities for Mitigation Spending:



Property Buy Backs: Buying back properties situated in flood-prone areas is a proactive approach to reducing flood-related claims and enhancing community resilience. By voluntarily acquiring properties located in high-risk zones, governments can significantly diminish exposure to flood losses.



Raising Homes: Raising homes and properties in flood-prone areas represents a strategic opportunity for mitigation spending as it helps reduce the risk of inundation, minimises flood damage, and contributes to long-term flood resilience, ultimately leading to lower insurance claims and recovery costs.



Flood Levies and Infrastructure: Investing in flood levees and other infrastructure projects is a robust strategy for mitigating flood risks. Flood defences can help prevent floodwaters from inundating vulnerable areas, safeguarding lives, property, and critical infrastructure.

The importance of mitigation strategies in reducing flood-related claims and enhancing resilience cannot be overstated. However, their successful implementation often requires substantial financial investments. While the federal government has allocated \$200 million towards mitigation efforts, it is evident that this amount is insufficient to address the scale of the challenge. Therefore, it is imperative that Australia allocates significantly higher resources to mitigate flood risks comprehensively. This heightened spending on mitigation serves not only as a proactive approach to disaster management but also as a necessary means to address the prevailing market failure within the insurance industry.



Recommendation: We recommend that this inquiry, or a separate dedicated inquiry, assess and recommend a funding figure that adequately meets Australia's needs for mitigation and resilience spending, with a specific focus on initiatives aimed at reducing insurance costs for consumers. Furthermore, we strongly urge the federal government commit to achieving this recommended spending level within a timeline of three years.

Land Use Planning and the Imperative of Restricting Development on Floodplains

Land use planning is a fundamental component of mitigating flood risks and ensuring the long-term resilience of communities. We emphasise the significance of prudent land use planning and the necessity of avoiding property development on floodplains. Preventing property development on floodplains is a proactive measure to reduce flood-related claims and safeguard lives and property. By adhering to stringent land use regulations, we can minimise exposure to flood hazards. Allowing development on floodplains often results in increased government spending on disaster relief and recovery efforts. Restricting such development is fiscally responsible and reduces the burden on taxpayers.

Effective land use planning requires a collaborative effort between insurers, governments, local authorities, and the community. Governments have a pivotal role in establishing and enforcing regulations that restrict development on floodplains. ACIL supports the implementation and enforcement zoning regulations that designate floodplains as off-limits for development. Building codes should also incorporate flood-resistant construction standards.



Recommendation: Governments at all levels, in collaboration with insurers and local authorities, strengthen and enforce land use regulations that prohibit property development on floodplains and other locations identified as posing an unacceptably high risk from an insurance perspective.

Building Capacity in the Construction Industry

The construction and building industry plays a critical role in disaster resilience, response, and recovery efforts during catastrophic events such as floods. The capacity of this industry to respond effectively is vital in minimising the impacts of disasters on communities and infrastructure. ACIL identifies the following opportunities to build capacity in the building and construction industry so consumers experience a more timely rebuild process:



Skilled Workforce Development: Invest in workforce training and development programs to enhance the skills and knowledge of construction workers, engineers, architects, and other professionals involved in disaster response and recovery.



Prepositioned Resources: Create stockpiles of essential construction materials, equipment, and temporary shelters in strategic locations to facilitate rapid response in disaster-affected areas.



Resource Allocation During Catastrophes: Insurers should establish mechanisms for reallocating resources, including trades and skills, to major catastrophe areas. This can be achieved through agreements and partnerships with other jurisdictions, ensuring that critical resources are efficiently deployed during major events to address shortages promptly.



Addressing Workforce Challenges: In response to the 2022 floods, ACIL acknowledges that a substantial number of assessors and building professionals faced heightened levels of stress, anxiety, and overwhelming workloads, leading many to pursue alternative employment opportunities. To address this critical issue, we recommend that insurers and the federal government collaborate on the establishment of one-time financial incentives aimed at encouraging these professionals to rejoin the industry. Additionally, a comprehensive plan should be implemented to ensure that workplace conditions are conducive to their well-being, thereby preventing a recurrence of the same challenges in future catastrophe events.



Recommendation: We recommend that the federal government collaborates with insurers and the building industry to formulate a comprehensive plan for building capacity within the sector during catastrophic events. This plan should encompass strategies for skill acquisition, resource allocation, and crisis management, ensuring a more robust and responsive industry in times of crisis.

Stamp Duty & Emergency Service Levy Impact

The review should encompass the examination of the imposition and utilisation of stamp duty and the emergency service levy, even though these issues fall under state government jurisdiction. High-risk consumers, already struggling to secure adequate insurance, pay a significantly higher amount of state taxes, adding to the unaffordability of flood insurance. ACIL supports the abolition of stamp duty and the emergency service levy or greater spending by state governments on mitigation and resilience efforts to alleviate the financial burden on high-risk consumers and promote the sustainability of insurance coverage in vulnerable areas.



Recommendation: We recommend the prime minister includes the issue of insurance stamp duty and the emergency services levy on the agenda of the next National Cabinet Meeting. This discussion should focus on either eliminating these duties or increasing investments in mitigation and resilience efforts to reduce insurance premiums for consumers.

Flood insurance is becoming a Market Failure for Consumers

The issue of flood insurance is increasingly manifesting as a market failure, posing significant challenges for consumers and governments alike. As the cost of insuring homes escalates to levels that many consumers find unaffordable or opt not to cover, it creates a substantial predicament. Moreover, the rising frequency of flooding events attributed to shifting weather patterns and insurers' emphasis on risk-based pricing further exacerbates this issue. **The practice of pricing policies according to the actual risk they entail can drive premiums to levels that are financially burdensome for the highest risk policyholders.**

In light of these concerns, it is imperative that both the federal government and insurers recognise the emergent market failure within the realm of flood insurance. Acknowledging this problem represents a vital initial step in the concerted effort to address the challenges posed by the affordability and accessibility of flood insurance for consumers.

The Need for a Federal Flood Reinsurance Pool

Australia faces a recurring and escalating challenge in managing the financial consequences of floods, as demonstrated by the recent major flood events in 2022. These events have highlighted the vulnerabilities in the current insurance market and areas of market failure. In response to similar challenges in cyclone-prone regions, the federal government established the Cyclone Reinsurance Pool. We propose that the government commission an inquiry into the feasibility of establishing a Federal Flood Reinsurance Pool to address the unique challenges posed by floods.

Benefits of a Federal Flood Reinsurance Pool as opposed to private would serve several key objectives:



Mitigation Integration: A government backed flood reinsurance pool can include mitigation integration where premiums collected can be used to fund mitigation efforts.



Land Use Planning: A program backed by the federal government could impose strict conditions on land use planning to ensure that properties are not built on flood plains.



Premium Affordability: A well designed pool could incorporate a level of cross subsidisation where consumers in low or no risk areas pay a small contribution to cross subsidise those in high risk areas. Stabilising insurance premiums for policyholders in flood-prone areas, making flood insurance more affordable and accessible.



Government Guarantee: A government guarantee would reduce the requirement to hold capital which would have the effect of reducing reinsurance premiums.



Recommendation: We strongly recommend that the government initiates a comprehensive inquiry to evaluate the viability of creating a Federal Flood Reinsurance Pool, tailored to tackle the unique complexities associated with floods. We propose that this assessment take place either during or following the 2025 review of the Cyclone Reinsurance Pool, capitalising on the opportunity to leverage insights and lessons learned from the existing cyclone-focused initiative to better address flood risk challenges.

Conclusion

ACIL is deeply committed to addressing the pressing issues surrounding insurance affordability, consumer rights, and industry practices. The devastating floods of 2022 underscores the urgent need for comprehensive reforms that support better consumer outcomes whether that be through better response and service at the time of a claim or the implementation of measures that reduce cost pressures on consumers. We firmly believe that by implementing our recommendations, we can create a more resilient and equitable insurance landscape for all Australians.

We urge the federal government to collaborate with other stakeholders in the insurance industry to address these critical issues, ensuring that consumers are protected and our communities are better prepared for future catastrophic events. Together, we can create a more resilient and fair insurance industry that serves the best interests of all Australians.



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