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Insurance industry rejects mandatory flood cover

The insurance industry is responding to the flood disasters of earlier this year by increasing the coverage and availability of insurance cover for flood damage, Chief Executive of the Insurance Council of Australia (ICA), Mr Rob Whelan said today.

Removing consumers' choice and introducing mandatory flood cover would do nothing to protect Australians against future flood disasters, and would result in people having to pay for flood cover whether they needed it or not.

In its submission to the Natural Disaster Insurance Review (NDIR), the ICA said that by January 2013, 84 per cent of home insurance policies sold would have flood cover.

"All Australians can purchase flood cover now, and we want to ensure those who need it most can access it," Mr Whelan said.

"Today around 54 percent of products available offer flood cover, within 18 months that number will rise to around 84 percent as the industry's access to flood mapping data improves."

The ICA said the insurance industry was seeking to improve consumer understanding of flood insurance by adopting significant reforms and would:

- adopt the common definition of flood to remove any consumer confusion;
- provide a *Key Fact* sheet, with every home and contents policy;
- in partnership with government, provide a community flood portal so all property owners can see the flood risk to their property and then take action; and
- provide government with a database of all known flood prone property.

The ICA has rejected mandatory cover for flood damage, saying it would increase the cost of living for all Australians, which could see an increase in the levels of under insurance and people opting out of insurance all together.

"Instead, we propose insurers clearly identify on a *Key Facts* sheet to be provided with every home and contents policy, the options available for flood cover under the chosen policy. This could range from no flood cover to comprehensive cover – it's the customers' choice," Mr Whelan said.

The ICA said the NDIR needed to take into consideration the fact that the majority of Australians do not live in flood prone areas.

"Flood damage is a persistent risk to only seven per cent of properties in Australia, and is in many cases, the result of poor government mitigation, failed land use planning and ineffective building codes," Mr Whelan said.

"People who live outside flood prone areas will not want to pay extra to subsidise those who choose to live in flood affected zones".

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Mr Whelan said that persistent and repetitive flooding would not be addressed by a government insurance scheme.

“Government focus on ‘fixing’ insurance ignores the fact that floods are repetitive disasters, which will strike the same properties time and time again. Government efforts should be primarily aimed at removing or reducing the flood threat to the community through mitigation,” Mr Whelan said.

“The Federal Government and COAG need to reach an agreement on national mitigation policy for homes currently on flood prone land.”

“We still don’t have a complete flood map of Australia, which would allow people to assess their risk when they are buying a home.”

The Insurance Council’s submission also responded to the NDIR’s proposal to create a flood pool for payments to future flood victims whose properties are uninsurable at affordable prices. The ICA said a flood pool would only create another layer of government bureaucracy, and policyholders and taxpayers should not be forced to pay for a pool when there were other, better remedies.

Mr Whelan said that people most in need, with properties at extreme risk of flooding, as a result of poor mitigation or land-use planning, could receive direct premium subsidies from State Governments, using a model proposed by the insurance industry.

“This would work like the first homebuyer’s grant scheme, with annual subsidies from Government for these policyholders, until all Governments undertook mitigation to remove the flood risk.”

According to the ICA, unless the root causes of flood damage are attacked, they would continue to impact at risk communities into the future.

“The funds are there, as State Governments currently receive from insurance policyholders close to \$5 billion in stamp duty and levies each year. All it takes is the political will to address the real problem,” Mr Whelan said..

“We are committed to working with governments at all levels to ensure they have the relevant information to consider our recommendations.”