

5 June 2023

[REDACTED]

Submitted via website:

<https://new.parliament.vic.gov.au/get-involved/inquiries/floodinginquiry/submissions#make-a-submission>

Dear Committee,

Inquiry into the 2022 Flood Event in Victoria

The Insurance Council of Australia (ICA) welcomes the Inquiry into the Flood Event in Victoria in October 2022 and the opportunity to provide this submission.

About Us

The ICA is the representative body of the general insurance industry in Australia. Our members represent approximately 89 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. As at December 2022, the Australian Prudential Regulation Authority statistics show that the general insurance industry generates gross written premium of \$64.2 billion per annum. The industry employs over 60,000 people and on average pays out approximately \$147 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

Importantly in the context of this review, the ICA is the coordinating body for the general insurance industry's collective response to severe weather events and determines the classification of events as Declared Insurance Catastrophes.

Summary of Recommendations

- ICA supports the continued work to agree and codify collaboration opportunities with Recovery Agencies in the common objective of supporting the timely and efficient recovery of communities following catastrophic events.
- To meet the building and construction capacity required for recovery and beyond expand programs and advocate for policy that can deliver a material increase in critical building and construction capability and materials to support and bolster the supply required for rebuild.
- Abolish states taxes on insurance products to improve insurance affordability and rates of under-insurance and non-insurance.
- The policy objectives of land use and planning by the Victorian Government should:
 - Adopt National Cabinet First Ministers agreement to end development of floodplains.
 - Focus on mitigation and the impacts of a disaster at the time of planning approval.
 - Reconsider the 1% annual exceedance probability (AEP) as the accepted standard for development and incorporate climate change scenarios in risk models to allow for future state risk assessment in decision making.
 - Establish a catchment-based approach to land use planning and hazard management.
 - Prioritise areas of zero-risk and low-risk to extreme weather for new dwellings, noting the probability of a hazard occurring and the potential impact of that hazard on property and life as part of the development of regional plans.
 - Identify and resource areas that require updated flood studies to better identify, understand and manage the risks of flooding.
- Where appropriate, commit to mitigation infrastructure before housing targets are given to councils.
- Ensure hazard data is accessible to the community, decision makers, and industry, including the Insurance Sector, to enable evidence based and risk informed decision making.
- Consider delivering 'Resilient Recovery' programs to reduce the impacts of legacy exposure to extreme weather events to protect communities and their property.

CAT223 - Insurance Catastrophe Declaration

On Wednesday, 19 October the ICA escalated its significant event declaration to an Insurance Catastrophe for regions of Victoria, Tasmania and New South Wales impacted by severe weather and flooding that had occurred since 12 October. This event is denominated as CAT223.

Under the Catastrophe declaration:

- Claims from affected policyholders are given priority by insurers,
- Claims are triaged to direct urgent assistance to the worst-affected property owners,
- Insurers mobilised disaster response specialists to assist affected customers with claims and assessments from as early as 03 November,
- ICA representatives mobilised to work with local agencies and services and affected policyholders from 25 October,
- An industry working group has been established to identify and address issues and monitor recovery progress.

CAT223 - Insurance Data

As at 23 May 2023, 21,700 claims have been reported from Victoria, New South Wales and Tasmania costing an estimated \$698m.

As at 23 May 2023, 12,714 claims at an estimated cost of \$571m have been reported in Victoria:

Class	Claims Count	Claims Cost	Closed	Paid
Personal	11,207	\$485,074,217	60.00%	\$290,947,655
Commercial	1,507	\$86,323,246	56.40%	\$32,918,941
Total	12,714	\$571,397,463	59.30%	\$323,866,596

Response and Collaboration with Agencies

ICA has had a good working relationship with Victorian Recovery Agencies (currently Emergency Recovery Victoria (ERV), formerly Bushfire Recovery Victoria and Emergency Management Victoria) for several years now. A Memorandum of Understanding (MOU) regarding state-led clean-up has been in place since 2020 and is an example of the collaboration we have been able to reach.

In the initial stages of the event, and following the flooding in Melbourne, ICA was afforded access to the State Control Centre. This was ideal and enabled holistic situational awareness and issues management across agencies and sectors during the early response phase.

Good ongoing relationships have been maintained with ERV and local councils which continues to aid in recovery operations and management of issues as they arise. A key area of ongoing focus is

Rochester where more than 1,800 claims have been reported from a population of approximately 3,000 people living and working in approximately 1,000 buildings. ICA is maintaining a close working relationship with Campaspe Shire Council and ERV and we have facilitated four rounds of community consultation with excellent support from our members, and the community at large. A fifth community consultation is planned for July 2023.

We are currently working with ERV and the Department of Treasury to review the MOU agreed in 2020 to incorporate and codify collaboration across data sharing, situational awareness, resilient recovery and grants approval procedures and state led clean up arrangements. We look forward to completing this work in advance of the next extreme weather season.

ICA appreciates and strongly supports the ongoing close collaboration with government and agencies in the common objective of supporting the timely and efficient recovery of communities following catastrophic events.

The ICA also engages a range of stakeholders via its own regular forums post the declaration of an insurance event, including with regulators and consumer advocates, to ensure timely discussion of issues and provision of data and information pertaining to the event.

Social and Economic Landscape

Recovery Supply Chain

Community recovery from this extreme weather event has been impacted by the availability of trades and under supply of construction materials in Victoria, and nationally.

We note Victoria's participation in the Automatic Mutual Recognition of Occupational Registrations and the modest benefit this program has provided. This program does not, however, provide relief for the supply of construction materials.

ICA urges the Victorian Government expand its programs and advocate for policy that can deliver a material increase in critical building and construction capability and supplies nationally. This will ensure a sustainable supply of resources and capacity for the duration of this event's recovery and build the necessary resource and capacity framework for inevitable future recoveries.

State Taxes and Charges

Maintaining adequate insurance cover enables individuals and businesses to recover faster and get on with the task of rebuilding, however this is hampered by state taxes and charges which drive up the final cost of insurance to customers.

The tax system should encourage not hinder insurance coverage. The addition of GST (10%) and stamp duty (10%) cumulatively adds 20.99% to the base premium for a household policy in Victoria.

The example below outlines the breakdown of an online quotation for Home and Contents insurance at 6 Bridge Road, Rochester, Victoria, 3561 (quote date 26 May):

Total Amount Payable: \$6,907.50

Base Premium: \$5,708.68

GST: \$570.87

Stamp Duty: \$627.95

The imposition of government taxes and charges adds financial impost to the cost of insurance for those that need it most, which may lead to consumers making decisions based on affordability that

may have significant consequences on their longer-term financial wellbeing when a natural disaster occurs.

The Victorian Government should abolish state taxes on insurance products to improve insurance availability and rates of under-insurance and non-insurance.

Victorian Floodplain Management Strategy 2016 – 2022

ICA notes at the National Cabinet First Ministers tasked Planning Ministers with developing a national standard for considering disaster and climate risk, as part of land use planning and building reform processes

This is a significant step forward in protecting Australians from extreme weather events. First Ministers agreed that the days of developing on floodplains needs to end.

The Victorian Floodplain Management Strategy and its execution have focused efforts on proactive management and acknowledged this gap in previous management strategies. Overall, actions have been achieved and implemented, and there is commitment to the continual improvement of management strategies.

Planning Arrangements

Land use planning arrangements and amendments have focused on minimising and avoiding flood risks. Climate risk has been placed as the clear driver behind this initiative, particularly through the focus on coastal flooding. Focus though needs to be expanded to incorporate urban and rural risks.

ICA commends the strategy for transitioning from Average Recurrence Interval (ARI) to Average Exceedance Probability (AEP) methodology and the focus on education around this.

Action has been focused on standardising and consolidating 1% AEP as the standard for development. In the last several years we have 1% AEP events more frequently with devastating consequences for life and property.

A key omission therefore is the integration of future climate scenario impacts on flood mapping and analysis, particularly in regional areas, to better mitigate against future flooding events (acknowledging it is noted there are current gaps in climate knowledge and the influence on flooding).

A failure to account for future climate scenarios and risk creates a latent risk in any planning strategy and scheme and presents a real danger the objectives of planning are not met in the long term. A greater investigation to determine how climate change may alter the behaviour and impact of a 1% AEP flood is required to properly inform risk-based decision making.

The Victorian government has formed a cross-border relationship with NSW to allow for data sharing and planning across borders / catchments. The Victorian Government needs to consider a state-led, catchment-based approach to planning that incorporates flood risk, utilising existing water catchment boundaries rather than local government boundaries. There are a number of benefits from taking a catchment approach, including enabling local governments to take a more holistic view of existing infrastructure across a region, and the potential flow on effects of development for other parts of a catchment.

A state-led approach will provide planning settings that better consider the local context – geography, demography and community, utility and evacuation infrastructure - rather than the current one-size-fits-all approach, which only considers the 1% AEP in any area.

Current arrangements and responsibilities are not appropriate to deliver the clarity that is needed on where homes can be safely built. Local governments have limited resources and, in many instances, information is incomplete, potentially inaccurate, and out of date. Floods do not respect local government boundaries and hazards are usually managed over multiple council areas, with actions in one Council potentially impacting another.

The capacity to accommodate new dwellings should be understood at a catchment level prior to the setting of housing targets for local governments. Councils should provide input into the strategic planning at the catchment level and receive direction from the State on where housing should not be permitted as part of the development of regional plans.

We acknowledge that governments and developers have invested large amounts of time and money into developments that could be potentially paused while risk is being mitigated, and that there is pressure to deliver more housing across the State. However, the protection of life and property needs to be the number one focus, with localised mitigation efforts a condition of approval prior to occupancy.

Land Use

The Victorian Government should also consider adopting and specifying an improved risk-based approach to land use for flood and other extreme weather events to protect lives and properties, providing clear direction on where new homes can and cannot be built, within each catchment area, and where mitigation is required.

Any housing development in areas prone to extreme flood risk should not be permitted, and in areas subject to high risk, stronger building codes and standards need to be employed and / or adequate resilience infrastructure built (see table).

This principle should also apply to other extreme weather events influenced by a changing climate.

Once the areas of extreme, high and low flood risk have been categorised, the considerations outlined in the table below should be applied as development controls or land planning overlays. This should be supported by enabling legislation or policy to require planning authorities to set three graduated levels of flood planning controls relevant to the level of risk.

Area of extreme flood risk	Area of high flood risk	Area of low flood risk
Housing not planned to be built	<p>Housing can only be built if adequate resilience infrastructure is programmed and funded and / or buildings are constructed to stronger standards that consider current and future climate projections</p> <p>Further work to be undertaken to consider where and how much housing can occur within LGA</p>	<p>Housing can be built without additional mitigation measures</p> <p>Further work to be undertaken to consider where and how much housing can occur within LGA</p>

Infrastructure and Mitigation

The Floodplain Management Strategy has also focused on increasing and upgrading mitigation infrastructure.

Consultation with local communities to understand their appetite to upgrade and manage existing infrastructure is to be commended. However, where there is reluctance in the community to support their mitigation infrastructure greater effort should be placed on encouraging local governments by providing education and financial support, or identifying mitigation of state significance and take over and fund ongoing management.

Investment has been made to improving the standard of mitigation infrastructure. One area of improvement that could be applied in the management strategy is to give equal focus to standards for residential properties and supporting those already in a flood prone area.

Legacy risk, that is the existing built environment, must be focus for the Victorian Government. There is not clear support for those who find themselves caught in changing land use arrangements, as the majority of the focus is on those who are planning to build. Whilst this is important it is equally vital to support those already living on a floodplain.

Data Sharing

ICA commends the focus on data and creating consolidated data sources within the Management Strategy. It is critical these are kept up to date and factor climate risk modelling. It is also imperative that hazard data is accessible to the community, decision makers, and industry, including the Insurance Sector, to enable evidence based and risk informed decision making. ICA notes there is still gaps in the Victorian data accessible to the Insurance Industry via the National Flood Information Database (NFID).

Resilience Investment

Following Australia's most costly extreme weather event in February and March 2020 the Queensland and New South Wales governments established Resilient Home Funds and Programs to address the unacceptable levels of flood risk in the communities affected. Funding is being deployed to 'buying back' homes within the most extreme exposure zones and raising and retrofitting homes in lower (but still unacceptable) exposure areas.

ICA urges the Victorian Government to consider delivering similar programs the same objective in mind i.e. reduce the impacts of legacy exposure to extreme weather events to protect communities and their property.

More broadly as the Victorian Government considers its applications for grants from the Federal Governments Disaster Ready Fund it should prioritise programs focused on hazard and exposure reduction.

Conclusion

If you have any questions or comments in relation to our submission please contact [REDACTED], the Insurance Council's Chief Operating Officer, on telephone: [REDACTED] or email [REDACTED]

Regards,

[REDACTED]