

# FLOOD INSURANCE - RISKY BUSINESS?

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While the Australian Insurance industry has recently made some bold steps with regard to flood insurance, concerns have been raised that some of these initiatives may have unintended consequences.

The December 2007 edition of *Floodplain Manager* reported that a voluntary common definition of flooding had been adopted by the Australian insurance industry and in the August 2008 issue we reported on GIO's initiative of automatic flood cover in all home and contents policies.

These were welcomed by the Attorney-General, Hon Robert McClelland MP, in a speech at the Australian Strategic Policy Institute National Security Dinner on 21 August (see page 5). At its August Quarterly Meeting, some FMA members raised concerns about insurance initiatives and it is seeking clarification on these as set out in the accompanying issue of *Sudden Rises*.

## **ICA Clarifications**

*Floodplain Manager* spoke to Karl Sullivan from the Insurance Council of Australia (ICA) and he provided further information about what the insurance industry is doing.

Sullivan said that the industry put an application to the ACCC to use a common definition of flooding as it did not want anti-competition concerns to be raised after products had been sold. The ACCC considered the application and took the view that the disincentive to competition was outweighed by the potential community benefit of a single definition of flooding. However, it did not approve the definition proposed because of objections raised by consumer legal groups to the specific wording of the proposed definition.

Noting that the broader insurance industry project to deliver greater availability of flood cover to the community was well advanced by this stage, the ICA has decided not to proceed with development of a common flood definition for the foreseeable future.

This means that insurance policies will continue to have a variety of flood definitions with insurance companies likely to compete on the nature of the product they offer. It also means that consumers will not be able to access a benchmark definition in order to compare the various definitions offered.

Although, as Professor John McAneney of Risk Frontiers told *Floodplain Manager*, "Definitions become a lot less important once you are including flooding rather than excluding it."

Mr Sullivan said, "A year ago, 8% of home and contents policies included flood cover as standard or as an option. Now 32% do so and there is potential to increase to 60% in one year and 80% in two years from now." Some insurers will choose to offer flood on a risk rating basis, whilst others may choose to offer it at a flat premium rate

across their portfolio. Wherever it is offered on a risk rated basis, the premiums paid reflect the flood risk. The availability of the National Flood Database will make it easier for insurers to estimate those risks.

### **National Database**

He also advised that on or around 17 December 2008 the National Flood Information Database (NFID) will come on line (*FM Dec 2007*). This multi-million dollar initiative been developed by the insurance industry and contains all available government flood studies undertaken throughout the country and will be available to each of the state governments which contributed data.

Where flood mapping has not been released for inclusion in the NFID, there is potential for consumers in that local government area not to be able to access flood insurance from the insurer of their choice. Consumers may be advised at the time of their insurance

State Governments will be able to use the database as a tool in decisions regarding mitigation works and land use planning. The insurance industry is continuing to encourage governments to make flood mapping available to local communities.

Professor McAneney said that the new database being created for the industry will be comprised of data which Risk Frontiers holds plus additional data collected by Willis Re. As this currently stands, the database is largely restricted to the eastern seaboard. Professor McAneney said Risk Frontiers and Willis Re are looking at expanding its coverage across the country to include all residential townships at significant risk from any mapped 1 in 100 floods.

### **The Future of Flood Insurance**

Mr Sullivan said that the ICA thinks the community should have access to flood information. The whole objective of the database is to give the data back to government so that it can use it as a tool as to where you can improve flood mapping and where mitigation is required. Also it should inform the community, through the insurance process, about the flood risks of properties which they have an interest in.

Some insurers may not offer flood insurance to specific properties because the risk is too high, falling beyond acceptable prudential limits for the insurers portfolio. The ICA estimates that up to 2.4% of flood prone properties are at high risk of flood events.

Mr Sullivan also noted that more scrutiny is occurring within the banking sector regarding insurance taken out on properties that they are financing, with an increased frequency of calls being received by the ICA from consumers seeking information on flood insurance for this purpose.

As the provision of flood insurance becomes more sophisticated, with insurer experience increasing in this new field, he sees that insurers may start to acknowledge flood risk mitigation activities by clients, where actions are taken to avoid or lessen the impacts of flooding such as raising floor levels, choosing flood resistant building design or having flood response plans.