

6 September 2024

Joint Select Committee on the New South Wales Reconstruction Authority

**Submitted via email:** [nswreconstructionauthority@parliament.nsw.gov.au](mailto:nswreconstructionauthority@parliament.nsw.gov.au)

Dear Committee,

The Insurance Council of Australia (ICA) was pleased to appear before the Committee on Friday 16 August 2024.

Our review of the transcript provided to us on 22 August 2024 indicates no amendments are required.

We also note:

1. One question was taken on notice during the hearing on 16 August 2024
2. We received four supplementary questions on 23 August 2024

Our responses are set out below:

### **Question on Notice**

From the transcript:

*Mr WARREN KIRBY: My question is about the PMF versus the one-in-100-year planning control, particularly around new developments. What is your understanding about the assessment of insurance costs and insurability with the PMF—or is it the one in 100?*

Our response:

Insurance prices are impacted by a range of factors:

- Natural disasters have caused more than \$34b in insurance claims since 2010, split between flooding (38%), storms and hail (34%), cyclones (18%) and bushfires (10%). The actual damage bill is much higher
- In Australia, around 1 in 12 properties (1.2m) have some level of flood risk. Of these, at least 230,000 are at risk of flooding every 20 years. 5.6m Australian homes are at risk of a bushfire. Australia's population continues to grow in places with greater exposure to storms, floods, bushfires and cyclones.
- The cost of repairing or rebuilding a home is now 27% higher than it was at the start of the COVID-19 pandemic. Because of Australia's worsening extreme weather, global reinsurance premiums have increased by up to 30% - that is, the insurance that insurance companies buy which enables them to share Australia's risk offshore.

In the past there has been a view that a higher AEP than 1 in 100 presented negligible risk. As our climate changes the frequency of severe events has been and is expected to increase e.g. In 2022 Lismore experienced 2 greater than 1 in 100 events within weeks, the Eugowra flood event in 2022 has been estimated at a 1 in 5000 event.

In response to the changes in our climate, Insurer risk models are being updated to reflect these systemic changes in hazard risk. Any property with exposure to a hazard has the potential to attract a risk premium for that hazard. In the context of flood, that means any property within a PMF has potential for flood impact. Having said this, all else being equal a property with a 1 in 20 exposure will attract a significantly higher risk premium than a property with a 1 in 500 exposure.

Key challenges in determining risk at an individual property include:

- Determining the position of a building on a parcel of land
- The habitable floor height of a property

Flood models often do not include these data points and rely on flood depths at the centre of a parcel of land (the 'centroid').

We strongly recommend these data points are prioritised for capture to improve the applicability of flood models for individual property owners.

### Supplementary Questions

1. The submission from the Insurance Council of Australia recommends establishing formal "Recovery Arrangements" with the insurance industry.
  - a. Should these arrangements be made with just the Authority, or with all the agencies involved in the State's emergency and disaster management framework?

#### Our response:

To ensure coherent and integrated arrangements, the ICA recommend an arrangement between the New South Wales Reconstruction Authority (or other agency), and each party manages requirements with their respective stakeholders.

1. The submission from the Insurance Council of Australia recommends establishing formal "Recovery Arrangements" with the insurance industry.
  - b. How would these recovery arrangements work in practice, say immediately after a disaster?

#### Our response:

The intent of the arrangements is to make recovery more efficient and effective for communities.

The arrangements would necessitate year-round engagement to identify opportunities and challenges, and to work through these to ensure focus is on execution following a disaster.

1. The submission from the Insurance Council of Australia recommends establishing formal "Recovery Arrangements" with the insurance industry.
  - c. Should these arrangements be recognised or reflected in the legislative framework?

**Our response:**

ICA sees benefit in the NSW Reconstruction Authority having arrangements with many sectors to ensure an integrated and efficient recovery for communities following disasters.

There may be benefit to the legislation requiring the NSW Reconstruction Authority to form these arrangements. ICA also recognise the need for arrangements to be flexible and quickly adaptable to changing needs and circumstances, so legislative amendments would need to be drafted in a way to preserve these attributes.

2. Are there any amendments in the Act or the policy framework for the Authority which you believe could provide assistance or guidance to the insurance industry as it relates to residents and communities vulnerable to disaster?

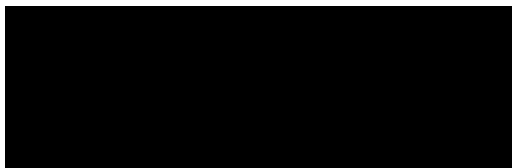
**Our response:**

Data underpins the Insurance Industry's calculation of risk. Access to hazard, exposure and vulnerability data at regional, community and property level collected through delivery of the State Mitigation Plan and development of Disaster Adaptation Plans has the potential to assist with:

- Optimally informed pricing
- Guiding insurers' disaster recovery planning and delivery
- Coordination with State Agencies following disasters

The ICA and our members are committed to the Hazards Insurance Partnership (HIP) with the Commonwealth Government, a key goal being the development of a national picture of hazard risk in Australia. ICA recommends the NSW Reconstruction Authority collaborate with the Commonwealth Government by making hazard, exposure, and vulnerability data available to inform this national picture.

Regards,



**Kylie Macfarlane**  
Chief Operating Officer

