

**Submission
No 24**

REVIEW OF THE NSW RECONSTRUCTION AUTHORITY ACT 2022

Organisation: Allianz Australia

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Joint Select Committee on the NSW Reconstruction Authority

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Allianz submission on the statutory review of the NSW Reconstruction Authority Act 2022

Allianz Australia Insurance (**Allianz**) welcomes the opportunity to provide input to the Joint Select Committee on the NSW Reconstruction Authority - Statutory review of the NSW Reconstruction Authority Act 2022. Allianz provides general insurance cover to 4 million customers Australia-wide, including home, motor, business, workers compensation and travel insurance.

Climate change is leading to increased occurrences of extreme weather events, rising sea levels and changing landscapes, making it crucial for Australia to understand and adapt to this ongoing risk to protect communities and ecosystems. Combined with economic uncertainties the risk profile of Australian communities is changing. As an insurer, Allianz sees first-hand how the effects of extreme weather events are impacting Australian communities and considers insurance to play a pivotal role in maintaining a strong and resilient economy and society.

The health, safety and well-being of Australians, as well as an economy that is responsive and resilient to the effects of climate change needs to be prioritised. As such, Allianz would like to see environmental planning rules strengthened to further restrict future development in high-risk areas. Effective land planning is critical to reducing the risk of harm to Australian homes. Past and ongoing failures of land planning are most pronounced in governments allowing urban development, particularly residential homes, in areas subject to riverine flooding.

Insurance companies price the risk of an event occurring at a property level and it is now well documented that increased premiums are leading to insurance affordability issues in certain parts of NSW. The affordability of flood insurance for property owners with high flood risks is an existing market failure which already limits the accessibility and affordability of home insurance for several hundred thousand homeowners across Australia.

Allianz's flood rating models produce flood premiums of up to four percent of a home building sum insured and 13 percent for contents, before taxes. Thus, for example, the flood premium for a house insured for \$500,000 could be as high as \$20,000. If that homeowner wanted flood insurance for \$100,000 in contents cover, the premium could be as high as \$13,000. The flood premium for this possible home and contents policy with a total sum insured of \$600,000 would be \$33,000, before tax. Add circa 10 percent State Stamp Duty (\$3,300) and 10 percent GST (\$3,630) and the policyholder's after-tax premium is \$39,930. If this home was in NSW, a circa 18 percent in Emergency Services Levy (ESL) would be added, taking the total after-tax flood premium to around \$45,000. Of course, the non-flood premium also needs to be added which will vary due to other risk rating factors, for example, related to other potential natural perils (eg bushfire), other risks (eg burglary), building construction characteristics etc.

There is much more that Governments could do now to assist in mitigation and adaption to high flood risk. One priority needs to be greater education and awareness for impacted communities so they understand the natural peril risks of their environment.

In responding to the Terms of Reference, Allianz believes that the policy objectives of the Act remain valid. Our comments below relate to the terms of the Act, specifically Division 2 Disaster Adaptation Plans.

Division 2 Disaster Adaptation Plans provides high-level instruction relating to when there is a requirement for a relevant entity to prepare disaster adaptation plans, the content of disaster adaptation plans and the issuing of guidelines by the Authority regarding the preparation and implementation of disaster adaptation plans.

Division 2(b), sub-section (v) of the Act states that a disaster adaptation plan must include or identify the following — ‘other matters the Authority directs the relevant entity to include or identify in the plan’. In consideration of this reference, Allianz recommends that when a relevant entity prepares a disaster adaptation plan, the Authority should direct the relevant entities that are responsible for urban development, land zoning and planning approvals in NSW to include an assessment of flood risk that can be recorded on a central register and made available to the public.

To enhance the communities understanding of flood risk prior to purchasing land in a new development, the Authority should direct that the disaster adaptation plans of relevant land use entities include a requirement for a flood risk assessment to be undertaken for all new parcels of land of over 10,000sqm approved for residential use.

The flood risk assessment should identify a risk score for each parcel of land (or part there of) based on it’s Average Recurrence Interval (ARI). The ARI is used to describe the probability of a flood of a certain size occurring and is the average time period between floods of a certain size. For example, a 100-year flood ARI will occur on average once every 100 years and equates to a one percent chance of a flood occurring in a 1-year period (see summary in Table 1).

Table 1: Annual Recurrence Interval and flood probability

ARI	In any 1-year period	In any 10-year period	In any 30-year period	In any 70-year period
50 years	1 chance in 50 (2%)	1 chance in 5.5 (18%)	1 chance in 2.2 (45%)	1 chance in 1.3 (76%)
100 years	1 chance in 100 (1%)	1 chance in 10 (10%)	1 chance in 4 (26%)	1 chance in 2 (51%)
200 years	1 chance in 200 (0.5%)	1 chance in 20 (5%)	1 chance in 7 (14%)	1 chance in 3.3 (30%)
500 years	1 chance in 500 (0.2%)	1 chance in 50 (2%)	1 chance in 17 (6%)	1 chance in 7.7 (13%)

Descriptions like the 1-in-100 year flood probability has been a source of confusion for many communities. Many assume that based on this description, the risk of flooding will only occur once every 100 years. However, as can be seen in Table 1, if a 1-in-100 year flood was recorded this year, the probability of another flood of that size being recorded in the following year (or any other subsequent year) would still be one percent. It is possible to have several 1-in-100 year floods within a 100 year period, just as it is statistically possible to go for 100 years without a single flood.

It is proposed that a 6-point scale be used based on the ARI scores to identify different degrees of flood risk ranging from 'low risk' to 'extreme risk', taking into account the hydrological impact of what is proposed to be built on the site (eg houses, other hard surfaces (eg roads)). The rating that Allianz provides to an address is based on the likelihood of flooding at the premises, usually up to a certain depth level and the frequency of this flood event occurring. Allianz's flood ratings are summarised in Table 2.

Table 1: Allianz flood ratings

Risk level	Flood score	Annual Recurrence Interval (ARI)
Extreme	6	< 49
High	5	50 – 100
Medium to High	4	100 – 499
Medium	3	500 – 1,999
Low to Medium	2	2,000 – 10,000
Low	1	>10,000

This flood risk assessment could be translated into a colour coded map of the site, with such maps placed on a register available to the public. In cases where a parcel of land is scored 4 out of 6 or above, a site-specific flood mitigation/adaptation plan should be prepared by the relevant government entity.

In summary, mitigation alone will not protect communities from extreme natural perils and the increasing impacts of climate change. More needs to be done to ensure effective land planning to reduce the risk of harm to Australian homes, particularly those yet to be built. Allianz supports a whole of economy, government and community approach to uplift climate change risk assessment, mitigation and adaptation and are pleased to work with the Government to continue to identify opportunities for improvement.

Allianz Australia Insurance
17 May 2024