

**INQUIRY INTO RESPONSE TO MAJOR FLOODING
ACROSS NEW SOUTH WALES IN 2022**

Organisation: Insurance Australia Group Services Pty Ltd (IAG)
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Select Committee on the response to major flooding across NSW in 2022
NSW Parliament House
6 Macquarie Street
Sydney NSW 2000

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Dear Committee Members,

IAG¹ welcomes the opportunity to make a submission to the Inquiry into the response to major flooding across New South Wales in 2022.

Our purpose is to make your world a safer place, and we recognise that our role extends beyond transferring risk and paying claims. Our purpose drives our business to work collaboratively with the community, Government, industry bodies and other organisations to understand, reduce and remove risk, as well as to build resilience and preparedness. This results in better outcomes for the community and means fewer claims and lower premiums for our customers.

The recent major flooding in New South Wales was devastating to many Australians. We see this devastation firsthand as we help our customers rebuild and recover. We also see the devastation when high-risk communities with low take up of insurance are impacted by flooding and have limited options to return to the life they were living prior to the flood.

Our current focus is on supporting our customers rebuild their homes, lives, and communities. We have received more than 27,895 claims from around NSW since March 2022. We have a dedicated team managing these claims and have finalised 2,843 of these flood claims to date. Our partner builders are on the ground helping our customers with repairs to rebuild their lives, homes, and businesses. Our teams are on the ground following the flooding event to support customers with their claims and organise financial assistance and temporary accommodation at recovery centers in Lismore, Murwillumbah & Ballina as well as our Help Response Van which was deployed to Lismore NSW. NRMA insurance, a leading IAG brand also announced a \$1 million help package for QLD and NSW communities impacted by the flooding boosting our ongoing resilience partnerships with GIVIT, Australian Red Cross and Lifeline.

¹ IAG is the parent company of a general insurance group with controlled operations in Australia and New Zealand. Our businesses underwrite almost \$12 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC and WFI (in Australia); and NZI, State, AMI, and Lumley Insurance (in New Zealand). With more than 8.5 million customers and information on the majority of domestic residences in our markets, we use our leadership position to understand and provide world-leading customer experiences, making communities safer and more resilient for the future

In addition to supporting our customers and communities after an event, we have a keen interest in preventing this level of loss and distress from occurring again. IAG has long advocated that flood management and mitigation is essential for communities to manage the risk to life, property and prosperity posed by floods. It is critical that we all use the lessons from this event to strengthen our communities for future disasters and put in place key measures to protect and build resilience in communities into the future.

For more than twenty years, IAG has invested in a specialist in-house natural perils team, which has unique expertise in measuring natural disaster risk and understanding options to address high hazard characteristics of buildings and property. Our recent research publications have focused on quantifying the impacts of extreme weather and climate change on risk to property and include *Severe Weather in a Changing Climate 2nd edition*² (in partnership with the US National Center for Atmospheric Research) and *Regional Sensitivity of Australian Flood Risk to Climate Drivers*³. IAG has been a member of Floodplain Management Australia since 2012 and is a founding member of the Australian Business Roundtable for Disaster Resilience & Safer Communities⁴.

In addition, NRMA Insurance, a leading IAG brand, has a long term partnership with the NSW SES. Together we are working on building awareness and increasing preparedness behaviour in high risk flood locations and have run campaigns in Georges River, Northern Rivers, and the Hunter/Central Coast. These are based off the successful 'Risk is Real' campaign that was run by Infrastructure NSW for the Hawkesbury Nepean area.

We support this inquiry into the response to major flooding across New South Wales in 2022 and acknowledge the terms of reference for this review. As we consider preparedness activities to include understanding natural peril risk and mitigating that risk our comments mainly fit into terms 1(a), (e), (f) and (g). We provide the following comments for the Select Committee's consideration.

1. To be prepared communities need to understand the risk they face

1.1 Create a national hazard database

IAG has long advocated for access to higher quality, consistent data that can be shared across industries to help communities understand risk and make quality decisions. In July 2014, post the 2011 Queensland Floods, the Australian Business Roundtable for Disaster Resilience and Safer Communities released, 'Building an Open Platform for Natural Disaster Resilience Decisions' the mechanisms for making this information available and the economic benefits of doing so.

Ideally a national natural hazard database would be created in Australia, where flood risk information and models are aligned across States and Industries and where flood risk data can be included by individual councils. This would enable one 'source of truth' on flood risk allowing all risk managers to use it to make efficient and aligned decisions about flood risk across the country. There would also need to be oversight and coordination of this data to ensure it remains relevant, up to date and makes clear to those using it when there is missing information. For example, the ePlanning Spatial Viewer's flood planning layers do not have state-wide coverage. When there is missing information, it shows as no risk rather than flag that the risk is unknown. No risk and unknown risk are vitally different and a misunderstanding of this in the data could lead to a planning decision that puts people's lives or property at risk.

We acknowledge that the NSW Government may not have the jurisdiction or ability to create a national database. We suggest the NSW Government consider advocating for, creating, or working with Federal Government agencies to create a minimum benchmark of data (risk mapping and modelling) that could be

² Available at <https://www.iag.com.au/severe-weather-changing-climate>

³ Available at https://www.floods.org.au/client_images/2128563.pdf

⁴ <http://australianbusinessroundtable.com.au/>

reproduced in each state. This is in line with the Royal Commission into National Natural Disasters recommendation 4.16⁵.

We acknowledge the NSW Flood Data Portal fulfils some elements of this need, however as end users we have struggled with poor accessibility, incomplete and out-of-date data, disjointed capabilities, and data availability between the two systems, and lack of support from Council data custodians for access requests to data held on the Open Data Portal.

1.2 Flood risk data must be available and accessible

Accurate, current, and accessible flood data is critical to understanding flood risk and informing state and local land use planning. We believe it is important to improve the collection, co-ordination, and access of flood data across Australia. Not just planning control data but also the underlying mapping and modelling data held by all levels of government.

We recommend that the roles and responsibilities around data sharing in each level of government are clear. For example, if secure storage and sharing of flood data is seen as a state responsibility, this must be clearly articulated or there is a risk it will not be prioritised or funded by the department. The split between council and state responsibilities must be especially clear so progress can be shared and reported on by both parties.

1.3 Risk information needs to be available to the public

IAG believes accurate flood data should be open and readily accessible to all, including households and businesses. This would allow everyone in the community to understand the flood risks they face. Public information on flood risk tends to be limited to land planning controls, rather than the actual underlying hazard data. This can lead to underestimation of risk as the risk outside of these controls can be significant⁶. In addition, IAG believes flood data should include the full spectrum of frequent to extremely rare flood events. Decision makers need to know what is possible and probable to make informed decisions on how best to use the land.

Flood risk information should be freely available to the public, rather than on an s10.7 planning certificate which incurs a fee to produce. Brisbane City Council's FloodWise Property Reports are an excellent example of freely accessible, detailed, actionable flood risk information, and represent best practice flood risk disclosure, a stark contrast to the information provided on s10.7 certificates in NSW.

There is significant economic value in understanding individual or business natural hazard risk, allowing members of the community to mitigate their risk and insurers to underwrite the risks with maximum certainty.

We strongly support previous recommendations from the ACCC 2020 Northern Australia Insurance Inquiry Final Report and the 2020 Royal Commission into National Natural Disasters Final Report which both highlight the need for improved availability of risk information. The ACCC noting:

“As a first step, we consider states and territories should implement measures to improve the information provided to potential homebuyers by prompting consumers to consider likely insurance costs before purchasing real estate. A requirement to include a statement advising potential homebuyers to obtain an insurance estimate as part of their due diligence will help ensure consumers are more aware of the potential cost of insurance prior to purchasing a property and can help reduce the instances of new homeowners experiencing insurance payment difficulties.”⁷

⁵ <https://naturaldisaster.royalcommission.gov.au/publications/royal-commission-national-natural-disaster-arrangements-report>

⁶ <https://www.dpc.nsw.gov.au/assets/dpc-nsw-gov-au/publications/NSW-Bushfire-Inquiry-1630/Final-Report-of-the-NSW-Bushfire-Inquiry.pdf>

⁷ <https://www.accc.gov.au/publications/northern-australia-insurance-inquiry-final-report>

The Royal Commission into National Natural Disasters noting:

“Clear risk information can help people make better-informed decisions about, for example, where to buy and live, how to design and build homes, and how to manage land. Governments should develop ways in which natural hazard risk information can be better communicated to the public – particularly to people who are making decisions that will affect their exposure to those risks. For example, those selling a home might be required to disclose this type of information to prospective purchasers.”⁸

2. Land use planning and building codes need reform to reduce the impact of natural disasters

*“Land use planning and building regulation are mechanisms for managing **exposure** and **vulnerability** to natural disaster risk. Land use planning governs **where** built assets, and the people that live in and use them, can be located. Land use planning is an important influence on **exposure** of communities to natural hazards. Building regulations determine **how** built assets can be constructed and so affects the **vulnerability** of communities to natural disasters”⁹*

Land use planning, development controls and building standards are the most effective tools we have to reduce the impact of natural disasters on the community. The decisions that govern how flood prone land is developed now will continue to impact the resilience of our communities for generations to come. IAG has often highlighted that land use planning needs to move away from measuring risk using the traditional 1% Annual Exceedance Probability (AEP) threshold mandated under previous generations of planning guidelines, and towards more appropriate risk measures which consider the economic and life safety consequences of the full range of possible flood events. Our research¹⁰ indicates that overreliance on the 1% AEP flood standard has resulted in disproportionate sensitivity to climate induced changes in flood risk in areas immediately adjacent to flood planning areas. We believe the first step in helping communities be more resilient to flood is to have a requirement for land planning and building codes to consider natural disaster resilience and natural disaster risk now and into the future.

We acknowledge there is a construction standard issued by the Australian Building Code Board (ABCB, 2012 and revised 2019) for new construction in flood prone areas. However, the standard is less stringent on building siting, design, construction, and mitigation than the standard for construction of buildings in bushfire prone areas. Bushfire construction requires the builder or landowner to undergo a BAL (Bushfire Attack Level) Assessment, which instructs what materials can be used, what orientation and siting and what construction methodology are required to comply to the BAL assessed levels. We believe flood prone areas should have a similar assessment or requirement incorporated into the building code.

2.1 Engagement with the insurance sector

IAG has long advocated that the insurance industry should be consulted in land use planning manuals and building codes and regulations as we have key information on risk. Insurers are experts in natural hazard risk modelling and assessment and have specific knowledge on the financial risks and impacts of natural hazards. We recommend that NSW Government Departments tasked with flood risk management engage with insurers or the insurance industry body (the Insurance Council of Australia).

Insurance pricing reflects the financial risk people are exposed to and therefore, the broader financial impact of disasters needs to be considered when looking to model risk, mitigate or adapt to it. Engaging with the insurance sector adds to the picture of acceptable risk. It allows flood risk managers to factor in all impacts of

⁸ <https://naturaldisaster.royalcommission.gov.au/publications/html-report>

⁹ Natural Disasters Royal Commission <https://naturaldisaster.royalcommission.gov.au/system/files/2020-07/opening-statement-land-use-planning-and-the-built-environment-8-July-2020.docx>

¹⁰ Regional Sensitivity of Australian Flood Risk to Climate Drivers, 2019 (available at https://www.floods.org.au/client_images/2128563.pdf)

risk, including the financial impact of planning decisions and allows both to align how we rate and review risk, recognise and reward resilience.

2.2 Current housing stock must also be addressed

Flood risk is considered in new developments or new changes to flood prone land. However, there is also a strong need to address the risk present in existing housing stock. The greatest impact of resilience measures but arguably the biggest coordination challenge, lies with existing residential buildings¹¹. We recommend the Select Committee consider the following:

- a) **The ethical issue of limiting land use due to risk** where there are existing housing/buildings in that area. If land or a zone is determined to be too high risk for future development, what happens to the people who already live there? Who has the obligation to inform current residents of their level of risk? What carefully considered options do they have? Should those owners be allowed to renovate, knock down rebuild or make substantive changes to their existing property?
- b) **Local governments and planners should consider allocating or putting aside areas of land for relocation** programs in the future. As the climate changes and more risk information comes to light, land planners need to consider allocating an area of the town for when the time comes for managed retreat/ relocation of those in existing building that are high risk.
- c) **Planners must consider cumulative impact of new development on flood risk to existing housing stock.** Flood risk controls are typically set at a property- or precinct-scale to minimise the flooding impact to the subject property and immediately neighbouring land. The strategic land use planning process must evolve to consider the cumulative impact of new development at catchment-scale, particularly with respect to impacts on the flood risk to existing housing stock.

3. Need for mitigation projects prioritisation

IAG commends both the Federal and NSW Governments allocation of funding for building community resilience in NSW. We specifically commend the Governments funding announcement for the Northern Rivers Resilience Initiative to fast track recovery and resilience efforts in the northern river's region. We have been advocating for an increase in mitigation funding for over a decade since the release of the first Australian Business Roundtable for Disaster Resilience & Safer Communities White Paper in 2013¹².

However, we understand that once funding is available the next challenge is where and how it is best spent. To assist with decision making in this area, IAG commissioned Rhelm to develop a set of National Flood Hazard Mitigation Priorities. The method for setting priorities involves identifying areas with high flood risk where there are potential flood mitigation measures that could be implemented to reduce this risk and then ranking the practicality and cost benefit of each area.

We have attached the report to this submission. We welcome the opportunity to provide a further brief on this report and its findings to the Select Committee. This report is a technical report that accompanies a series of flood summaries or "snapshots" that have been prepared for each of the short-listed areas identified to be affected by high flood risk.

There are two key components of the attached report:

¹¹<http://australianbusinessroundtable.com.au/assets/documents/White%20Paper%20Sections/DAE%20Roundtable%20Paper%20June%202013.pdf>
¹² <http://australianbusinessroundtable.com.au/assets/Natural%20Disaster%20Roundtable%20Paper%20Web%20version%20January%202014.pdf>

- The identification of potential structural flood mitigation measures (also known as flood modification measures in some jurisdictions) in short-listed floodplains across the country, and an economic assessment of these measures.
- A review of potential property level mitigation measures.

Two out of the seven short listed options in this report are in the NSW towns Narrabri and South Tweed.

4. Community preparedness is also considering what, how and if we choose to build in high-risk locations.

IAG believes *what* we build in a floodplain, *how* we build it and *if* we should build there at all urgently needs reexamination in today's changing climate. The Royal Commission into Natural Disaster Arrangements report advises that in general “*Australians have a high capacity for disaster resilience across south eastern areas of Australia and around metropolitan and major regional centres.*” However as “*the disaster risk increases the capacity of communities and systems to be resilient is diminished.*”¹³

IAG has long advocated that reducing natural disaster risk is the best way to prevent communities experiencing an endless cycle of flood disaster, recovery and rebuild. There is a point at which the natural disaster risk is so great that communities have limited ability to prepare for or recover from the impact of the disaster.

We believe insurance affordability is one key indicator of whether the risk for communities is acceptable or not. Communities, Councils, State and Federal Governments must now work together with the private sector to understand where and what types of buildings are at a risk level that exceeds the community's capacity to prepare for and mitigate against the flood risk.

Flooding and flood risk is not contained within state borders. We urge the NSW Government to plan and coordinate with both the Federal and Queensland Governments to manage the flood risk in the NSW/Queensland border region.

5. Managed retreat must be considered before an event.

We commend the NSW Government for establishing the Northern Rivers Reconstruction corporation. Rebuilding in Lismore and the Northern Rivers region will require coordinated planning, building and construction work across multiple government agencies. We also recognise the NSW Governments long history of supporting voluntary purchase schemes in partnership with local governments. However, we believe key to the success of rebuilding in the Northern Rivers region is to significantly increase Federal and State Government funding to expand and refocus voluntary purchase schemes and to initiate a land swap scheme.

Managed retreat in extreme flood areas can be a divisive issue for communities. We acknowledge that the decision to consider managed retreat as an option needs to be place based and community led, each community must assess the economic and social costs of relocation for both the relocated people and the remaining community.

Given recent NSW flooding events, it is clear that the existing level of flood risks in some areas are not economically sustainable for communities. Our concern is the risk in these communities will only worsen with further impacts from climate change¹⁴. We believe now is the right time for the NSW Government to look at communities with extreme flood risk and consider where managed retreat may need to occur. For communities

¹³ <https://naturaldisaster.royalcommission.gov.au/publications/html-report/chapter-02>
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that have extreme flood risk we believe the recent NSW flooding should prompt them to assess their flood management plans with a new focus on including managed retreat in the future.

Our view is managed retreat could be either market-based or mandated. There are benefits and drawbacks to either approach. Market-based solutions would involve the use of voluntary buybacks to remove residents from homes that are most at risk before an event. An extreme alternative would be to use compulsory acquisition laws to mandate the purchase of homes in highest-risk areas. Although, compulsory acquisition has been used in the past in cases such as Sydney Airport where residents were provided with a sliding scale of noise reduction improvements depending on their distance from the flight path. Another example is Christchurch in New Zealand where, following the 2011 earthquake, certain areas have been designated 'red zone' prohibiting rebuilding of homes, with residents offered relocation to new subdivisions under their insurance

Payment in these cases would need to be apportioned between the parties involved with costs balanced between the government and the residents being relocated. This could take the form of housing subsidies or structured as an incentive to encourage residents to relocate¹⁴. Managed retreat is particularly economically effective if undertaken immediately following flood events and is practiced successfully in other countries with similar risk levels¹⁵

The NSW Government has an opportunity to fund and normalise managed retreat as an option for high-risk communities. We recommend the NSW Government watches the Queensland Government's relocation program closely and uses it as a benchmark for a similar NSW program that would fund and encourage relocations including infrastructure and planning provisions for land swaps. We also suggest community flood planners seek to explore this option before a natural disaster occurs and ensure each flood prone community understands when and under what conditions they would explore a managed retreat scenario.

6. Additional IAG research.

In addition to the Rhelm report, we have attached two further research papers commissioned by IAG that further investigate the impact of natural disasters on our economy and communities for your review.

The Menzies Research Centre Report - *Strengthening Resilience: Managing Natural Disasters*

IAG commissioned the report to be part of our submission to the 2020 Royal Commission into National Natural Disaster Arrangements. We commissioned this paper to synthesise the existing information on how Australia can prevent and respond to bushfires and other natural perils. It summarises what has been learnt and what can be changed in the future. IAG supports the recommendations of this paper. The five key recommendations are:

1. Government funding should further prioritise risk reduction which will reduce the need to spend on disaster recovery.
2. Introduction of a National Bushfire Risk Rating (NBRR) system for all bushfire-prone communities, properties, and structures.
3. Introduction of a national approach to land use and building codes.
4. Creation of an open access information platform comprising all data required for natural hazard management.
5. Tax reform to improve the affordability and increase uptake of insurance.

¹⁴ <http://australianbusinessroundtable.com.au/assets/Natural%20Disaster%20Roundtable%20Paper%20Web%20version%20January%202014.pdf>

¹⁵ https://www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public/frm_canada_web.pdf

SGS Economics & Planning Report - The *backbone of regional and rural economies: small business and community resilience*

IAG commissioned the report to explore the impact of natural disasters on small businesses, regional communities and the role insurance plays in economic recovery. The key findings from this report are:

1. For households and businesses to acquire an adequate level of insurance, they need to have a comprehensive understanding of the risks they face under their individual circumstances. For small businesses this is especially important as they often do not have the means to withstand periods of reduced customers or staff unavailability.
2. Small businesses are often un- or under-insured, and are not always aware of their risk exposure, particularly that the costs of business interruption may be as high or even higher than the direct damages.
3. There is a pressing need to increase investment in risk mitigation for small regional businesses to prevent damages and interruption, which has a flow on effect to the economic prosperity of regional and rural towns.
4. For the two case studies explored (Townsville floods and Black Summer bushfires) on average, between 65% and 72% of total economic impact from the floods and bushfires is attributed to small businesses.
5. Without insurance, it is possible that economies, and especially those in regional and remote areas, may never fully recover from a natural disaster, as damage leads in some cases to a permanently impaired productive capacity in the long term.
6. With a changing climate and growing population, more Australian communities are being exposed to more intense and more frequent extreme events. Insurance plays a vital role but investing in preparedness will be essential.

IAG welcomes the opportunity to provide a submission to the Select Committees inquiry into the response to major flooding across NSW in 2022. We would be delighted to discuss the issues raised in this submission in more detail.

Sincerely

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IAG