

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

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The Hon. Walter Secord, MLC
Chair, Select Committee: Response to major flooding across New South Wales in 2022
Parliament House
Macquarie Street, Sydney, NSW 2000

Submitted via email:

Dear Mr Secord

Thank you for the opportunity to respond to the Legislative Council select committee inquiry into the response on major flooding across New South Wales in February and March 2022. The Insurance Council of Australia (ICA) is the representative body of the general insurance industry in Australia. Our members represent approximately 89 per cent of total premium income written by private sector general insurers.

To date, there have been more than 98,500 insurance claims related to the floods in New South Wales, with an estimated claims value of \$1.67 billion and an average claim cost of \$16,000. In the Lismore LGA there have been almost 5,000 insurance claims made with an estimated claims value of more than \$396 million and an average claim cost of \$79,000. These figures demonstrate in monetary terms that the impact and cost of the flood was far greater in Lismore than across the rest of the State.

Beyond the immediate clean-up and community recovery, it is clear there are complex issues to work through if we are to better prepare for major flooding across New South Wales in future.

These issues include the construction of community resilience infrastructure such as levees, upgrading existing flood awareness systems, land use planning reforms, land use decisions by major commercial residents, enhanced building codes, all impacting on the future insurability of homes and businesses.

There are also several more short-term issues that may impact recovery, including the availability and cost of construction labour and materials, the availability of replacement motor vehicles, the availability of temporary accommodation, the availability of data, the impact of cash settlements, and the appropriateness of insurers providing 'like for like'.

Our submission provides practical recommendations and research for government to further develop into policies which can better protect communities against future major floods.

We welcome any opportunity to discuss the contents of our submission throughout the process of this select inquiry.

Regards

Andrew Hall
CEO & Executive Director

Summary Recommendations

- 1 Amend land use planning legislation to include mandatory requirement for planning approvals to consider property and community resilience to extreme weather and natural disasters.
- 2 Reject the 1 per cent annual exceedance probability (AEP) as the accepted standard for development.
- 3 Review existing building codes to include resilience as a core consideration and build requirement.
- 4 Examine rezoning some areas and providing government subsidies to buy back land to facilitate flood plain retreat.
- 5 Prioritise government funding on risk reduction which will reduce the need to spend on future disaster recovery.
- 6 Introduction of a natural peril data centre in collaboration with other government agencies such as the Australian Climate Service to enable better evidenced led planning decisions by all levels of government.
- 7 Establish a program to identify and mitigate legacy issues within homes and commercial buildings facing an unacceptable level of peril risk.
- 8 Abolish state-based taxes and duties on disaster insurance to improve affordability and access for policy holders.
- 9 Establish a government-funded clean up scheme for future rebuild processes.
- 10 Develop a list of mitigation projects against major floods such as raising levees, flood dams and early warning systems to prevent future catastrophic events.
11. NSW State Environmental Planning Policies (SEPP) should include a requirement to consider natural peril risk such as flood and fire.
12. Prioritise investment in early warning systems to empower communities exposed to natural disaster risk
13. Co-design effective ways of working with ICA and the insurance industry to deliver rapid event insights, prompt issue resolution, and holistic consideration of response, recovery and resilience challenges.
- 14 Introduce a requirement for a natural peril risk rating on all homes during the sales process as an accompaniment to a contract of sale.

Catastrophe Declaration and Response (Cat 221)

The New South Wales (NSW) and South-East Queensland (SEQ) Flooding Event February-March 2022 were collectively declared an Insurance Catastrophe on 26 February – denominated as CAT221. The geographic range for the event was expanded to include Greater Sydney on 28 February 2022.

An Insurance Catastrophe declaration means:

1. Claims from affected policyholders are given priority by insurers.
2. Claims are triaged to direct urgent assistance to the worst-affected property owners.
3. Insurers mobilised disaster response specialists to assist affected customers with claims and assessments from as early as 2 March.
4. ICA representatives mobilised to work with local agencies and services and affected policyholders from 7 March.
5. An industry working group has been established to identify and address issues and monitor recovery progress.

As of 29 April 2022, using actual claims costs from approximately 197,000 claims across both states, the event is estimated to have cost \$3.35 billion in insured losses. In NSW, 98,500 claims have been reported with an early estimated total cost of \$1.67 billion. These figures do not include costs borne by the uninsured or publicly owned infrastructure such as roads and bridges.

This makes the event the costliest flood in Australia's history, and the fifth most costly disaster after the Eastern Sydney Hailstorm (1999, \$5.57 billion), Cyclone Tracey (1974, \$5.04 billion), Cyclone Dinah (1967, \$4.69 billion) and the Newcastle Earthquake (1989, \$4.24 billion)¹.

The rise in claims costs compared to previous floods is being driven by a higher cost base in the Personal Property, Personal Contents and Commercial Property classes driven by the sheer volume of losses in an environment of significantly increased materials costs and a severely constrained supply chain and skilled labour market.

As of 29 April 2022, more than 11 per cent of claims have been closed and \$580 million has already been paid to insurance customers.

On average, for CAT221 flood cover was a feature of 75.32 per cent of policies under which claims were submitted, however in Lismore this figure was 46.7 per cent, highlighting issues of insurance affordability and underinsurance in the region.

¹ All normalised to 2017 values

Disaster Response and Recovery

Community Expectations

Northern Rivers communities have been critical of the speed and effectiveness of the emergency response to the February and March flooding event.

Prioritising investment in early warning systems is one key measure to lessen the impact of natural disasters by better informing communities to act through mitigation or evacuation well before impending disaster.

The European Commission conducted an economic benefit analysis of the European Flood Alert System (EFAS) which can produce longer lead times for flood (10-15 days instead of 3-5 days) using probabilistic hydrological forecasts. The analysis found an alert system able to provide flood forecasts 10 days out would provide a return of 400 Euros for every Euro invested (over 20 years using a 5% discount rate)².

Comprehensive and integrated emergency management plans, and strategies to engage and inform community members on these, are also critical. Outlining the roles and responsibilities for community members, combat agencies, recovery agencies, government, and community sectors before, during and after a disaster sets expectations in advance and removes uncertainty at the very times precise execution is most important.

The ICA calls on the NSW Government to review the effectiveness of the current bureaucratic arrangements and funding of disaster response to establish a sole line of authority for emergency response. The recent floods exposed a lack of clarity as to where authority and responsibility sat with between Resilience NSW, the SES and the Minister for Emergency Service that may have contributed to miscommunication on evacuation notices and rescue efforts. Improving the protocols will improve vital emergency management communication and responsiveness.

The NSW Government should seek to minimise the economic distress of natural disasters to local communities by having a suite of economic recovery packages prepared, including a range of financial assistance and grants, to meet these ongoing reoccurring events. This would allow the NSW Government to swiftly assess which package is appropriate, amend if needed, and rapidly enact it to provide the local community much needed comfort.

Data sharing

The ICA sees a key opportunity to co-develop policy to allow for the timely and comprehensive sharing of appropriate data between governments and the private sector, to assist in forming a full and comprehensive view of impacts following severe weather events. This will improve government insights and inform response, recovery and policy decision making.

The ICA is collaborating with the National Resilience and Recovery Agency (NRRA) to develop policy that will enable the sharing of hazard-related data for improved planning, analysis, investment, and disaster response. The ICA strongly supports the ongoing commitment at all levels of government to develop policy that allows prudent data sharing to build a richer view of the natural and built environment.

² Pappenberger, F. C. (2015). The monetary benefit of early flood warnings in Europe. *Environmental Science & Policy*, 51, 278–291

The insurance industry makes ongoing data for all open declared catastrophes publicly available. This data is provided by insurers through the ICA who warehouse and amalgamate the data for public use. With our members the ICA has taken steps to ensure the accuracy and integrity of the data that we share, including by aligning definitions across all insurers providing regular data submissions.

Disaster clean-up arrangements

The insurance sector supports in-principle State and Federal leadership of disaster clean-up to ensure consistency in hazard removal and equitable use of public funds. However, insurers and impacted communities know that clean-up is often delayed due to level of planning and approval activity necessary in the absence of pre-existing clean-up protocols and arrangements.

The ICA recommends standardising the safe and timely clean-up of waste and debris following a natural disaster, which is critical to physical and psychological recovery for communities and formalising the necessary disaster clean-up funding via the Disaster Recovery Funding Arrangements (DRFA).

We acknowledge the Australian and NSW Governments for their role in expanding the storm and flood clean up arrangements during the March 2021 Mid-North Coast events³. Communities would benefit from these arrangements being formalised for future events.

The ICA recognises that these arrangements may differ by event type (flood, bushfire, cyclone or hail) and by State, however we believe this potential complexity is more than offset by the immediacy with which clean up can occur in the event of a natural disaster and the positive impact this has on communities' ability to recover and rebuild in a timely manner.

COVID-19 Impacts

One of the adverse impacts of lockdowns and state border closures have been delays to insurers' ability to repair, replace or rebuild damaged homes and other assets. COVID restrictions and prior border closures have caused significant challenges for insurers involved in rebuilding and repairing disaster-affected communities, leading to uncertainty and setbacks for families trying to get their lives back to normal.

Insurers worked with all state, territories and the commonwealth government to update the national Emergency Management Protocol in November 2021⁴, which classified insurers and associated supply chains as emergency responders. The protocol assisted industry with labor mobility during border closures however is unable to address key supply chain issues such as shortage of key tradespeople domestically and materials due to global supply chains impacts post-COVID.

Community recovery from the floods have been impacted by the limited number of available tradespeople and under-supply of construction materials in NSW, compounded by several other factors including a very active home building market and COVID border closures.

³ <https://www.pm.gov.au/media/nsw-storm-and-flood-clean-grants-program-extends>

⁴ <https://insurancecouncil.com.au/resource/insurers-welcome-updated-emergency-response-protocol/>

Insurers welcome the recent improvements by the government to the NSW Automatic Mutual Recognition (AMR) scheme⁵ to ease construction labour shortages. While the AMR is one approach to assist with labour supply issues, we acknowledge that is competing with other programs such as the Queensland Government's 'Tradies in Paradise' initiative.

More can be done to onshore international construction workers and address the affordability and access of construction materials required to repair and rebuild homes.

Northern Rivers Reconstruction Corporation

The ICA welcomes the NSW Government's establishment of a Northern Rivers Reconstruction Corporation (NRRC) to help rebuild regions devastated following the recent floods.

Insurers, with the support of other key peak industry bodies, have outlined the need for Government to develop an overarching plan for the rebuild process, and the establishment of a high-level cross-sector leadership group.

Successful cross-sector co-ordination bodies were established following previous significant disasters such as the 2011 Brisbane floods and after the 2011 Christchurch earthquake. These included local, government, business, and civil society representatives empowered in making informed decisions on the rebuild and future resilience of the community.

Beyond the immediate clean-up and community recovery, it is clear there are complex issues to work through if we are to ensure the Northern Rivers community is made more resilient to future flood events.

Key issues to consider include:

1. construction of community resilience infrastructure such as levees;
2. future insurability and lendability of homes and businesses;
3. land use planning;
4. land use decisions by major commercial residents; and
5. building codes and standards.

There are also several more short-term issues that may impact recovery, including the availability and cost of construction labour and materials, the availability of replacement motor vehicles, the availability of temporary accommodation, the availability of data, the impact of cash settlements, and the appropriateness of insurers providing 'like for like'.

Insurers note that government should seek to commence the operation of the NRRC at the earliest practical date. Delaying commencement until 1 July further impacts the ability of communities make decisions relating to rebuilds or potential relocations in Lismore.

Land Use Planning

Natural hazards including floods have the potential to threaten life and property. They impose social and economic costs on governments and the community. Indeed, flooding is recognised as one of the costliest natural disasters in Australia. The total incurred claims cost of floods since ICA records began

⁵ https://www.treasury.nsw.gov.au/sites/default/files/2022-04/Matt-Kean-Eleni-Petinos-med-rel-Red-tape-cut-to-mobilise--nterstate-tradies_1.pdf

in 1970 is more than \$21.3 billion, with the 2022 extreme weather and flooding in SEQ and NSW driving over \$3.35 billion of the total⁶.

Nationally, data shows roughly one million properties are flood-prone, this illustrates a clear need to re-examine historical land use planning decisions at the state level.

Managing flood risk to new development in NSW is critical to limiting growth of flood risk. Currently, standards generally require that new housing not be located within a 1% annual exceedance probability (AEP). Reliance on this standard has assumed that the risk from larger events will be infrequent and minor enough to be generally accepted in communities. Analysis of flood claim data indicates that newly built homes above the 1% AEP are sustaining an unacceptable level of damage⁷.

Figure 1: Flood Probability Fact Check

What does 1-in-100 AEP flooding actually mean?

A 1:100 flood risk does not mean that a property floods once every 100 years. It means that there is a 1% chance of that type of flooding occurring in the next year, major floods can still occur in close succession over a few years. If you live in a 1% AEP flood zone, you have a 50% chance of being flooded in a typical lifetime (70 years), and a 15% chance of being flooded twice in this period.

State of Flood/AEP	Probability of experiencing the given flood in a period of 70 years	
	At least once (%)	At least twice (%)
1 in 10 (10%)	99.9	99.3
1 in 20 (5%)	97.0	86.4
1 in 50 (1%)	75.3	40.8
1 in 100 (1%)	50.3	15.6
1 in 200 (0.5%)	29.5	4.9

Source: NSW Floodplain Development Manual, IAG 2020

Flood risk can be managed in a range of ways, with the greatest opportunities related to land use planning. As urban populations expand, new houses are increasingly being built on floodplains and flood prone areas. In this context, the threshold of acceptable risk needs to be reconsidered and the consequences of flooding, not just the probability, taken into consideration.

Effective land use planning in areas that are subject to natural hazard risk can significantly reduce the increase in disaster risk and enhance the resilience of existing and future communities.

Recent decisions by the NSW government to remove requirements to consider the risks of floods and fire before building new homes are inconsistent with reforms required to address future catastrophic

⁶ Insurance Council of Australia 2022

⁷ Insurance Council of Australia 2022

events occurring. The NSW government's new Design and Place State Environmental Planning Policy (SEPP), currently under review⁸, should include requirements to consider the risks of natural peril risk at the minimum to ensure future homes are not built in locations with an unacceptable level of peril risk.

The policy objectives of land use planning by the New South Wales Government must change to focus on mitigation and the impacts of a disaster at the time of planning approval. Future financial losses to homeowners, businesses and government can be avoided with better government planning and investment in this area.

Land Swaps and Buy Backs

In reference to Lismore Council's recently issued '*building back better*' discussion paper⁹, insurers encourage government to explore a retreat of home and businesses in key affected areas such as parts of North and South Lismore where effective long term mitigation solutions cannot be found.

A key consideration for government should be the time in which decisions are made to fund and operationalise a buy-back or land swap arrangement. Delayed decision making in relation to land-swaps and buy-back arrangements could lead to suboptimal decision making by affected households, such as rebuilding in existing high risk flood areas, inability for communities to make decisions on rebuilding and indirect issues relating to contractual obligations for insurers processing claims honestly, fairly and expeditiously.

Broader considerations such as future insurability and lendability of any rebuilt or relocated home should be a key consideration during policy design.

Building and Construction Codes

Whilst land use planning is the most effective means to mitigate flood risk, improving building and construction codes is also key.

In terms of designing buildings for flood, the 'ABCB Standard: Construction of buildings in flood hazard areas 2012.3', aims to reduce the risk of death or injury of the building's occupants as a result of flooding. The standard focuses on preventing the collapse of the building and does not provide guidance on the performance of the house in terms of liveability after an event.

Some useful guides for promoting resilient construction in flood prone areas are the Queensland Reconstruction Authority's Flood Resilient Building and the Hawkesbury Blue Book (QRA 2019; Hawkesbury-Nepean Floodplain Management Steering Committee 2006). Implementing improved design standards and criteria will improve the building's functionality post-event.

The National Construction Code (NCC) is currently based on three mandatory core objectives established under the Intergovernmental Agreement for the operation of the Australian Building Codes Board (ABCB), which are to efficiently achieve:

1. Health and safety
2. Amenity and accessibility; and
3. Sustainability

⁸ [Design and Place State Environmental Planning Policy \(SEPP\) | Planning Portal - Department of Planning and Environment \(nsw.gov.au\)](https://www.nsw.gov.au/planning-and-environment/sepp)

⁹ <https://yoursay.lismore.nsw.gov.au/74709/widgets/371433/documents/230942>

Significantly, these objectives do not include any consideration of property durability or resilience.

The NCC relies on Australian Standards establishing significant technical building design and construction requirements for industry. Like the NCC, there is no requirement in the development of Australian Standards to consider building durability or resilience.

This is exacerbated by the quality performance of construction in Australia. Numerous reports have highlighted the prevalence of defective building work across Australia, compounded by a lack of robust compliance activity.

The NSW Building Commissioner recently found 39 per cent of strata buildings had experienced serious defects in the common property¹⁰. Building codes must be amended to reflect resilience and future risk standards to mitigate against the effects of increasing frequency and severity of extreme natural disasters.

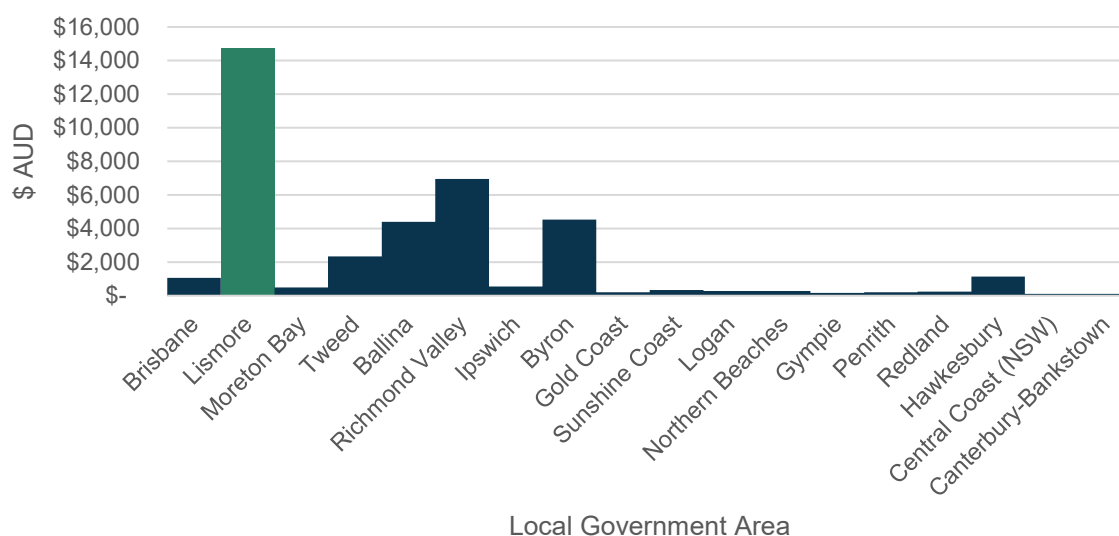
The NSW Government must consider how it can reflect resilience and future risk standards in its planning and development policies and assess the effectiveness of compliance regimes to assure consistent completion of construction and development to those standards.

Greater Investment in Resilience and Mitigation

Without increased funding to make homes, businesses and communities more resilient to natural perils, coupled with an urgent rethink of where and how we build, the risk profile of communities exposed to extreme weather will not change.

As evidenced by the recent floods, a lack of mitigation investment results in higher claims costs and insurance premiums. The table below highlights Cat 221 claim costs adjusted for population in Lismore were more than 35 times higher than the median of all other affected local government areas.

Figure 2: Cat 221 Incured Claims Losses Adjusted Per Capita



Source: Insurance Council of Australia, 2022

¹⁰ https://www.nsw.gov.au/sites/default/files/2021-10/Serious_defects_in_residential_apartments_research_report.pdf

Insurers welcome recent announcements by the Commonwealth and state governments to increase resilience funding, however communities across NSW are still exposed to unacceptable levels of natural peril risk such as flood and bushfire¹¹.

The ICA recently commissioned research by Finity Consulting to research and devise a national resilience program, which totalled \$2 billion in investment by government collaborating at a state and commonwealth level. The analysis found an expected reduction of \$19 billion in financial, health and social costs to the economy by 2050¹². The highest returns on investment were found in relation to early flood warning systems and wet flood-proofing existing homes as outlined in Figure 3.

Figure 3: Summary of proposed mitigation return and investment

Resilience measure	Description	Basis of assessment	Investment (\$m)	Returns (\$m)	ROI
② Cyclone proofing homes	Additional funding and extension of the Queensland Household Resilience Program across QLD, NT and WA, to retrofit homes for cyclone protection	Urbis study of costs and benefits ¹⁰	221	1,964	8.9
③ Wet flood-proofing existing homes	Allow flooding through buildings to reduce damage to homes, raising utilities above flood level, and using water-resistant materials below the flood level, in flood prone areas across Australia	BNHCRC review of US experience ¹¹	413	3,602	8.7
④ Additional fuel management program	Funding for states and territories to increase fuel management programs using a range of measures including prescribed burning, mechanical removal, and remote sensing systems, in order to reduce the risk of bushfires across the nation	State and territory prescribed burning targets BNHCRC DAE review of costs and benefits ¹²	712	3,065	4.3
⑤ Flood early warning systems	Improving flood early warning systems (Flood Watch) to provide longer lead times of 10-15 days, to support decision-making, drive enhanced monitoring, and initiate emergency preparedness for communities in flood prone areas across Australia	JRC evaluation of the European Flood Alert System ¹³	37	10,141	271
⑥ National coastal hazard information database	Creation of a national database to identify communities and assets at risk from actions of the sea	Baird Australia report for ICA ¹⁴	10	Not estimated	Not estimated
⑦ Detailed cost and benefit analysis	Detailed cost and benefit analyses on measures within this program, to consult with affected communities including indigenous communities, and to perform environmental and cultural heritage assessments	Finity estimate	85	Not estimated	Not estimated
Total			2,000	>19,294	>9.6

Source: Finity Consulting, 2022

¹¹ <https://www.sgsep.com.au/assets/main/SGS-Economics-and-Planning-at-what-cost-IAG-mapping-where-natural-perils.pdf>

¹² https://insurancecouncil.com.au/wp-content/uploads/2022/02/R_ICA_Resilience_Final_220218.pdf

In 2014 the Productivity Commission performed a detailed review of Natural Disaster Funding Arrangements and found that expenditure on resilience measures across all levels of government is likely to be below the optimal level.

It also found that governments overinvest in post-disaster reconstruction and underinvest in resilience measures that would limit the impact of natural disasters in the first place. It recommended that Federal Government post-disaster support to state and territory governments should be reduced, and support for resilience measures increased.

Specifically, it recommended that the Federal Government should increase the amount of annual funding it provides for pre-disaster resilience measures to \$200 million, which should also be matched by funding from states and territories.

In 2022, as part of research commissioned by the Minderoo Foundation, Deloitte Access Economics estimated that by adapting now, Australia could avoid \$380 billion in worsening annual economic costs from climate change, of which \$120 billion relates to resilience measures to reduce the impact of extreme events on the economy¹³.

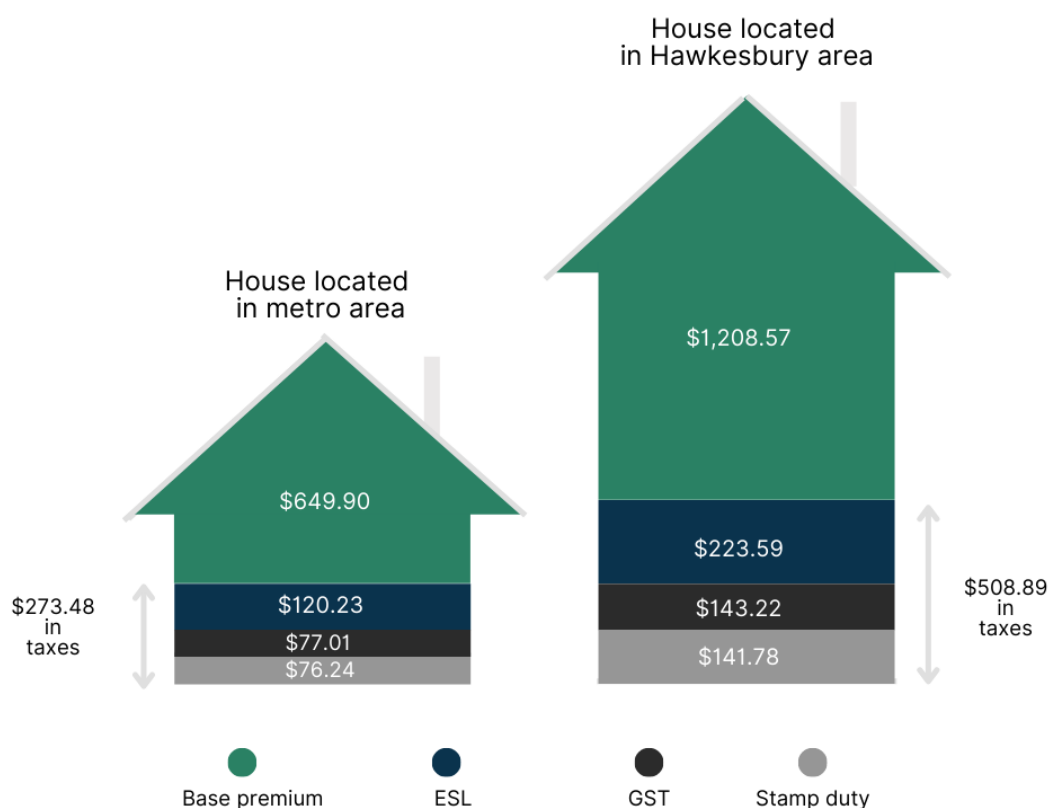
State Taxes: Affordability and Underinsurance

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.

Goods and Services Tax (GST), stamp duty and the Emergency Services Levy (ESL) make up between 30 and 45 per cent of insurance premiums sold in New South Wales. The figure below illustrates the additional cost to insurance for two comparative NSW households due to current taxes.

¹³ <https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-dae-economic-reality-check-minderoo-foundation-091121.pdf>

Figure 4: Cost of Insurance Increases for Vulnerable Locations in NSW



Source: Suncorp 2021

Research indicates a high correlation between low-income communities and flood risk. Increasing the cost of insurance through the existence of inefficient product taxes compounds affordability and access in communities that require insurance the most. As outlined below, communities in high peril risk areas face disproportionate challenges to insure their home due to the current level of state taxes.

The NSW Government's own 2020 Review of Federal Financial Relations chaired by David Thodey found:

"Insurance taxes are inefficient: they drive up premiums and discourage consumers from adequately insuring. There can be serious human and social consequences from what has been dubbed 'a national crisis of under-insurance', especially for a country that relies heavily on insurance markets for recovery from disasters."

The ICA supports the 2020 NSW Review of Financial Relations final report which recommended "the phasing out many of the nation's most unfair and damaging taxes, including transfer duties and taxes on insurance".

Specifically, the review recommended that "All specific taxes on insurance products, including the Emergency Services Levy in New South Wales, should be abolished and replaced by more efficient and broad tax bases, to improve the affordability and uptake of insurance".

To reduce the cost of insurance and enable fairer ways to fund the fire and emergency services, the NSW Government should reconsider applying a levy directly on property owners and should also consider combining this with a future broad-based land tax instead of via their insurance costs.

The ICA urges the NSW Government to remove state-based duties and taxes on insurance products to improve rates of under-insurance and non-insurance.

Further Reading

1. *Building a more resilient Australia: Policy proposals for the next Australian Government*, Insurance Council of Australia, 2022 ([link](#))
2. *Climate Impact Series: Flooding and Future Risks*, Insurance Council of Australia et al, 2022 ([link](#))
3. *Reaping the rewards of resilience*, Insurance Council of Australia & Finity Consulting, 2022 ([link](#))
4. *Letter to the NSW Premier: Lismore Floods*, Insurance Council of Australia, 2022 (attached)