



NDIR Issues Paper – Overview

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Government objectives

To ensure:

- ability to recover and rebuild quickly after disasters
- people to choose where they live in an informed way
- people are aware of risks, can insure against them and can benefit from mitigation



Guiding principles

- Government intervention only if insurance not **available and affordable**
- Risk mitigation a key objective
- Individuals and businesses encouraged to insure



Theme: availability and affordability of insurance

Perils

- Flood
- Bushfire, cyclone, earthquake
- Other – landslide, actions of the sea

Assets

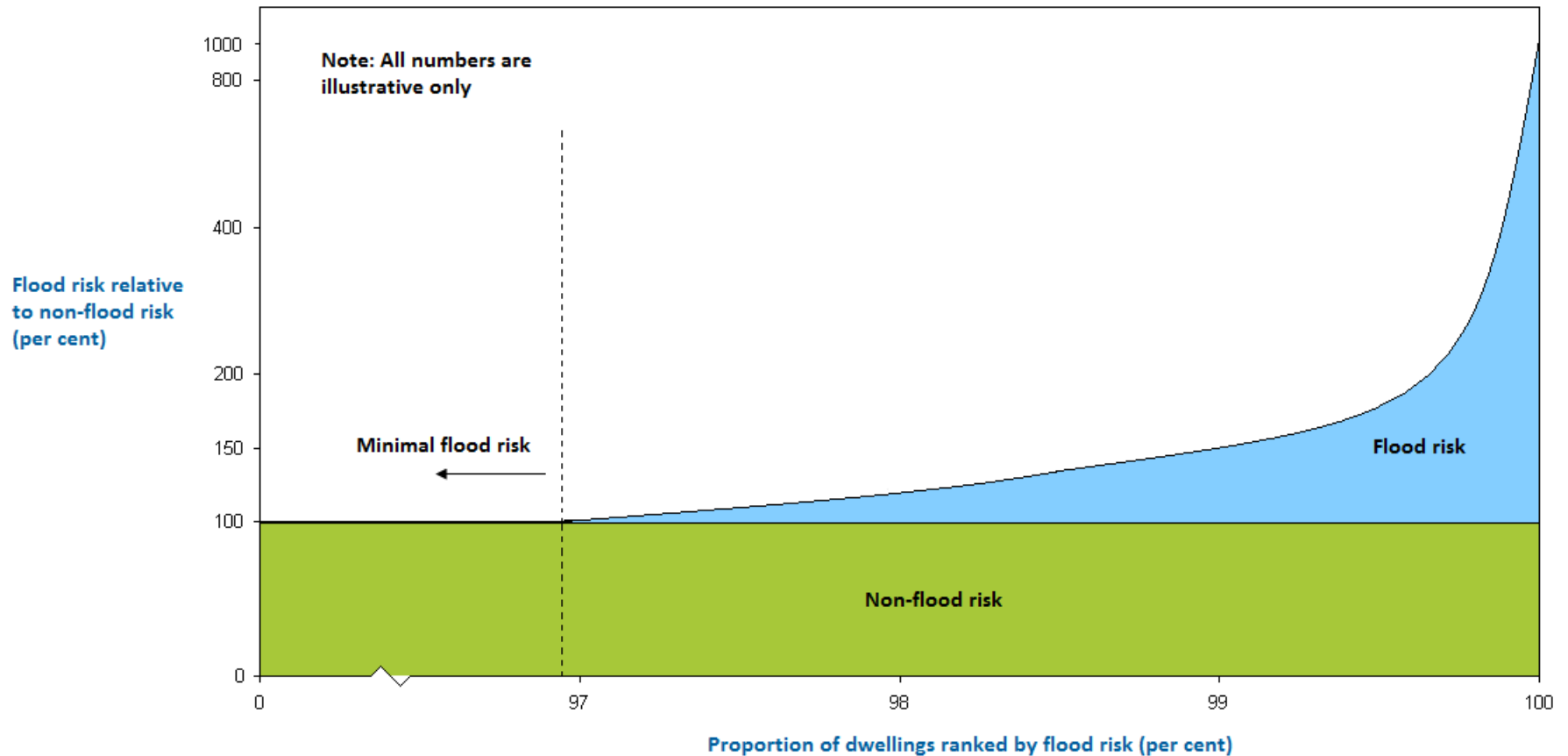
- Residential homes
- Contents
- Other residential property (strata properties)
- Small business

Attributes

- Non-insurance
- Under-insurance
- Insurance market – effectiveness, limitations
- Role of lenders
- Consumer understanding
- Claims resolution
- Measuring flood risk
- Mitigation



What is the flood insurance problem?

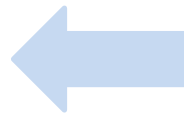




Alternative flood cover models

Automatic Flood

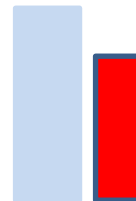
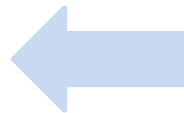
All insurers obliged to offer automatic flood cover



All insured properties covered for flood

Opt Out

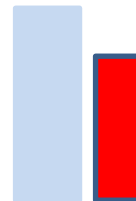
All insurers obliged to offer automatic flood cover



Owners free to insure with or without flood cover

Status Quo

Insurers free to offer or not offer flood cover



Owners free to insure with or without flood cover

*Among homeowners who purchase insurance.



Implication of flood cover models

Model	Availability	+ Affordability	= Access	→ Coverage*
Automatic Flood Cover	Yes	With intervention	With intervention	All
Automatic Flood Cover with Opt Out	Yes	With intervention	With intervention	Many
The Status Quo	Maybe	No	Some	Some



Some other topics (A)

1. Flood cover for other classes of assets

Should any new arrangements for flood cover for homes also apply to

- contents?
- strata properties?
- small business?

2. Under-insurance

Bushfire experience reveals material under-insurance for total losses

- should replacement cover be standard?
- is sum insured plus buffer (for example, 25 per cent) an effective substitute?

3. Non-insurance and compulsory vs voluntary insurance

Non-insurance for homes is low (< 5 per cent?)

Non-insurance for contents is high (> 25 per cent?)

- is there a case for any form of compulsory insurance?



Some other topics (B)

1. Role of lending institutions

What level of responsibility do lending institutions have towards themselves and towards their home mortgage customers for insurance cover, including flood?

2. Measuring flood risk

The existence, quality, scope and consistency of flood maps are variable

- **Is a nationally consistent approach needed?**
- **If so, who should undertake and fund the work required?**

3. Mitigating flood risk

Have past flood mitigation projects affected the underwriting and pricing practices of insurers and reinsurers?



Some other topics (C)

1. Consumer understanding

- What measures could improve consumers' understanding of risks and insurance cover?
- Would homeowners benefit from accessing personal advice that takes account of their risks?

2. Resolution of claims disputes

- How can the dispute resolution process be improved and made more transparent?
- Should there be a time limit for insurers to respond to a dispute following a natural disaster?

3. Other Natural Disasters

- Is there a case for extending the scope of insurance to cover landslide and actions of the sea?



Implication of Automatic Flood Cover

Primary benefits:

- all insured properties automatically covered for flood
- disputes over cause of water damage eliminated
- may generate -
 - more confidence in the insurance system
 - brand protection for insurers

but requires mechanisms to -

1. identify the higher flood risk properties
2. give discounts on higher flood risk properties
3. fund the discounts

while also avoiding moral hazard –

- flood risk mitigation needs to be encouraged and funded
- owners, developers and councils need the right incentives



Implication of Opt Out of Flood Cover

Primary benefit:

- all policyholders obliged to accept flood cover or to decline it explicitly
 - ... responsibility for having flood cover is clearer

but, for high flood risk properties -

either

- requires same discount and funding mechanisms as for automatic flood cover

or

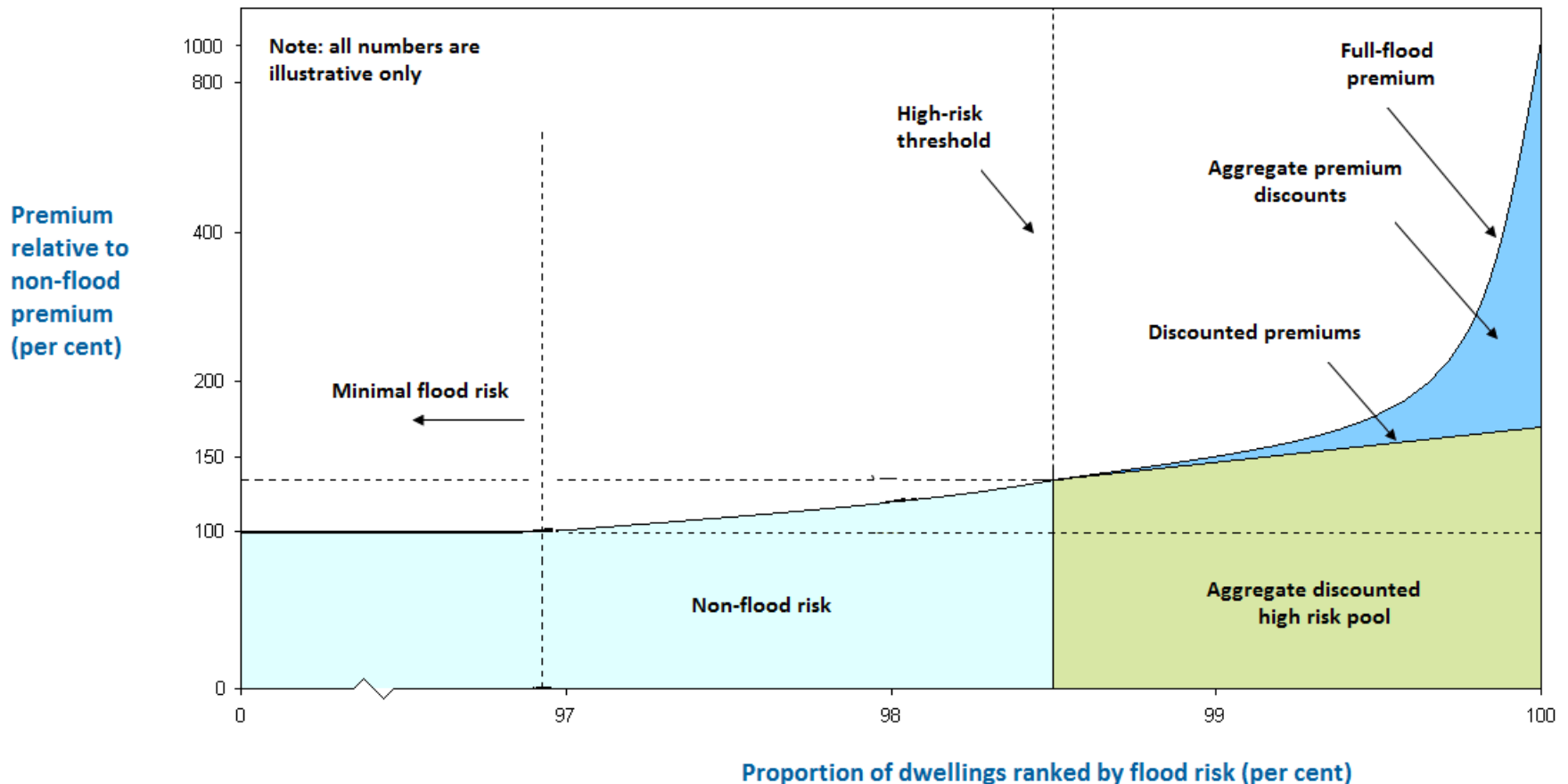
- many owners will be underwritten or priced out of the market

and

- take-up of flood cover will remain limited
- disputes over cause of water damage will continue to occur



Giving premium discounts on higher risks properties?





Funding the discounts – a Flood Insurance Pool?

