

NDIR Submission from John G Lunn

Dear Sir/Madam,

My submission into the review on matters associated with Natural Disaster Insurance:

NATIONAL DISASTERS INSURANCE

John G Lunn

ABSTRACT

In the beginning emergency management planning was a collection of the response standard operating procedures of the emergency services. The planning was then expanded to include the response of all other interested and affected organisations. The realisation that prevention is more cost effective than a cure was the impetus to the inclusion of prevention and mitigation in emergency management planning.

The neglected area and yet the most protracted and arguably the most costly aspect of major emergencies is that of the recovery. (The Recovery Management Plan for Newcastle Australia after the earthquake was scheduled to take ten years). Recovery management per se is too large a topic to address in one paper therefore the focus of this paper is on the insurance and financial aid aspects.

1. INTRODUCTION

The genesis of this paper was a conversation I had with a person affected by the Newcastle earthquake. To put this into context Newcastle is located on the eastern seaboard of Australia approximately 150 km north of Sydney and is Australia's sixth largest city. The population in 1989 was about 285,000 people.

The earthquake, which registered 5.5 on the Richter scale occurred at 10.27 am on 28th December 1989, and resulted in the death of 13 citizens, injury to more than 160 people, an estimated \$1 billion in damage to property and businesses, half of the central business district structurally damaged, 10,000 buildings and houses damaged and the prospect of more than 3000 buildings being demolished.^{1[1]}

The person I spoke with had been a member of the New South Wales Police during the time of the Newcastle earthquake and his house had been substantially damaged by the earthquake.

In common with many other people he was **under** insured. Research done by the Insurance Council of Australia in recent years has revealed that 24% of Australian houses are not insured and 56% of contents in those are not insured.^{2[2]}

He said that as a matter of principle his insurance company contested every claim from all of the people insured with that company. (not verified). A neighbour of his who was a very

^{1[1]}McNaughton J (1990) Newcastle Earthquake Response Record Newcastle City Council r

^{2[2]}Smith R.G.A. (1983) : Problems of Natural Disasters Insurance in Australia, the range and scale of the problems, changing conditions and policies Insurance and Natural Disaster Management Seminar, James Cook University of North Queensland Australia

good friend, and incidentally more wealthy, had elected not to insure his families house or contents; and when their house was badly damaged by the earthquake that family was accommodated in a new house with new furniture within six months; financed from community appeals. The policeman, his wife and their three children were living in a caravan for eighteen months, and were obliged to take out a \$20,000 interest free loan from the relief fund to cover the difference between the final insurance payout and the cost of rebuilding and repairs. The policeman and his family needed extensive counselling over a protracted period. He has been retired from the Police department on the grounds of ill health. He was very friendly with his neighbour, but he says that he can't help but resent the distinction between the treatment he received compared to his neighbour.

The experiences of this policeman reminded me of a conversation I had with a senior public servant, who had represented the State's Premier during the recovery of Zeehan after bushfires which had destroyed 36 houses on Tuesday 3 February 1981.

Zeehan is on the west coast of Tasmania, which is an island state off the south eastern coast of Australia. The population of Zeehan at the time of the fires was 1,750. The issues that are still vivid in the memory of the senior public servant are as follows:-

a) He says that the hardest job he ever has was to give away \$1,000,000 from the appeal funds to the disaster affected community in what the community perceived to be 'fair' and 'equitable.'

b) His greatest disappointment was the reaction to one of his other initiatives:-

One of the suburbs of Zeehan had been mostly burnt to the ground, and he negotiated with the State and Federal government to fully fund the building of a new sub-division with new sewerage, underground power etc.

With great excitement he went to the community to tell them what he had managed to organise on their behalf.

They told him where to stick his new sub-division; and their old properties were repaired or rebuilt on their existing sites

These types of anecdotes are repeated many times over after every major event. It raises the question: 'Why can't we plan to get it right before the event rather than just lament the inequities and difficulties afterwards?

I will now describe some of the issues that need to be considered and what could be done to better manage some of these recovery aspects in the future. This is done with the recognition that it will never be possible to be right for all people, but with the belief that we should be seen to be doing our best for the majority.

2. ISSUES

Recovery management will be enhanced if we take into consideration such factors as:

a) Philosophy and policy

b) Insurance - people who have no insurance, those that have some insurance, those that have full insurance; those that might have income insurance; those that have assets, those who have none; those who have the capacity for self-help and those that have none; those who are willing to help themselves and those that will not.

- c) Formulas for the distribution of relief, who produces the formula, what are the criteria, should the formula and criteria be made public knowledge?
- d) The importance of the consultative process and the concept of informed consent.

A. Philosophy and Policy

From an insurers viewpoint, flood is a major problem of insurability as only those who readily recognise that they have a distinct chance of being flooded, seek insurance. If you live on a hill, you dismiss with scorn the need for flood insurance, but this results in insufficient funds being available to build up a pool which will not require a subsidy to withstand bankruptcy of the insurer.

Expressed in user pays terms, the user, if they are a normal householder, cannot afford to pay the premiums even if it were available for living on a flood plain and if they see no risk they do not try and purchase flood insurance. Thus flood is a good example of the need for a national disaster insurance scheme - there is a significant demand for this type of cover but it is not generally available at affordable rates to a substantial number of people.^{3[3]}

Although flood is the example quoted and is often cited as the most contentious, the principle involved would hold true for all emergency/disaster insurance.

This reminds us of the person who asked the life insurance salesperson to explain life insurance.

The explanation went something like this:-

"We bet that you will live long enough to pay us more in premiums than we will pay out on your death. If you die early you win."

In essence most people will only want to take out insurance if they perceive there is a risk; and will resist any compulsion to contribute to a nation-wide disasters insurance scheme because of the risks that others take voluntarily.

One might be prepared to contribute to a national bushfire insurance scheme because there is a risk each year that one might be affected, but the idea of a percentage of one's premiums insuring the risks of those people who choose to live in marginal areas which are subject to cyclones each year; and whose residents do not follow recommended building codes, might be an anathema.

Equally those people who exercise their democratic rights to live in cyclone prone areas that are free of bureaucratic interference might be appalled at the concept of any insurance and especially that which might include coverage of southern states city dwellers who might get their bums burnt in an occasional bushfire.

The influence of the doctrine of the government of the day is also significant.

When the concept of National Natural Disaster Insurance was mooted in 1979 the Government of the day published a report which included the following observation :-

" the Government also believes that such a scheme would be inconsistent with a basic tenet in its political philosophy - namely, that governments and government authorities

^{3[3]} Ibid.

should to the maximum extent possible seek to avoid intervention in matters than can be left to the private sector."4[4]

Successive governments both Conservative and Socialist have taken no action since that time, even though - "the Australian Labour Government is more inclined to the belief that there are many incapable of self-help and reliance."5[5]

It is also interesting to note that an executive of the Insurance Council of Australia expressed a personal view that he was against the concept of appeals following a disaster as this only encouraged inappropriate behaviour ie if people thought that they would get their house and contents replaced from appeals why should they pay for insurance, particularly when some studies have shown; 52% of property owners were better off not having to pay for insurance.6[6]

There would also be the view that there are those who would prefer to be insured, but who do not have the capacity to pay and their inability to afford insurance is another example of social inequality.

Similarly if their discretionary disposable income was decreased because of their national natural disasters insurance premiums this might further exacerbate their concerns if they considered that their premiums might be used to replace the house and contents of those who were living in wealthy suburbs.

The more research I did the more complex the philosophical and policy issues became. In the end we identified what we believe are some self evident truths beyond which it is not all that useful to contemplate.

- 1) Damage and harm will continue to occur.
- 2) Repair, replacement and restitution will be attempted.
- 3) Given the choice most people would prefer not to pay for their own or other peoples repairs replacement or restitution.
- 4) Someone has to pay.
- 5) It can either be reactive financing ie look for the money after the event or proactive financing before the event.

An example of proactive financing exists in New Zealand. Under the Earthquake Commission Act 1993 (first enacted in 1944) all domestic property insured against fire is deemed to be insured to the extent of the indemnity value against earthquake and war damage. Premiums at the rate of 5c for each \$100 of indemnity value are collected by the insurance companies and paid into the Earthquake and War Damage Fund (less commission of 2.5%). The fund provides domestic property owners in New Zealand who have purchased fire insurance, with automatic insurance cover up to \$100,000 for dwellings and \$20,000 for contents for damage to property caused by:-

- * activities of war;
- * earthquake shock, earthquake fire and seismic seawave;

4[4] Howard J (1979) Natural Disaster Insurance; ; A policy information paper issue by the Treasurer, Australian Government Publishing Service Canberra. Mr John Howard is currently the Prime Minister of Australia.

5[5] Ibid.

6[6] Kunreuther H. (1973) Recovery from Natural Disasters, Insurance or Federal Aid? American Enterprise Institute for Public Policy Research; Washington, D.C.

- * hydrothermal activity and volcanic eruption;
- * landslip; and
- * land cover (damage caused by storm, flood, earthquake, landslip)

Grants may be made from the Consolidated Account if at any time the amount in the Earthquake Commission Fund is not sufficient to meet the lawful claims on the commission. At 30 September 1992 the fund's investments were valued at \$NZ 2.5 billion.

B. Insurance

There would appear to be three basic options either:-

- a) do nothing
- b) the nation self insures through a scheme underwritten by the government (the sort of ad-hoc arrangement that exists at the moment in that the state and federal government comes to the rescue with tax-payers money after the event)
- c) take out a National Disasters Insurance cover with the insurance industry.

To do nothing and maintain the status quo would be to continue a situation that is universally recognised as being at least inadequate and most often as a source of inequities.

If a country resolved to provide its own community insurance through its government, one of the effects would be the detriment of the insurance industry, with a negative effect on development, employment etc. The insurance industry is a business and unless it can generate profits on a continual basis it will not survive.

The insurance industry has to determine how best to organise its affairs so that it can reliably and unfailingly meet the claims made upon it. It has to provide such a service in a way, and at a cost, that convinces sufficient of those who will potentially take out insurance that it is a wise and beneficial arrangement. 7[7]

In Australia there already exists compulsory insurance for third party, fire and theft for motor vehicles; medical insurance which largely covers the cost of visits to the family doctor and fully covers the cost of treatment in public hospitals; and a retirement benefits fund or superannuation. Therefore it would not represent a significantly different initiative to install compulsory National Disasters Insurance Scheme.

The cost of repair, replacement and restitution would then be amortised across the whole community, and in effect provision made in advance rather than reactive financing with a possible debt left to our children. The premiums would need to be government secured and could be invested in appropriate development initiatives which in turn would increase employment opportunities. The developments might also be sited in areas which generated the most premiums and the least claims.

7[7]) Back K.J.C (1983) Introduction to the Insurance and Natural Disaster Management Seminar held at James Cook University of North Queensland. Centre for Disaster Studies James Cook University of North Queensland.

This would assist the safeguarding of the development assets and the major contributors would see immediate benefits for their premiums. For those people who had the capacity to take out additional insurance they could pay additional "gap insurance" to pay the difference between what might be paid out of the national scheme and what might be the full cost of replacing or repairing their assets.

The management of the National Natural Disasters Insurance Scheme could be vested with the existing insurance industry so that their existing expertise was utilised and their industry supported through a commission on the premiums. The eligibility and levels of payout would be a function of their current assessors, subject to government policy and veto.

The role of the government would be the establishment of the compulsory scheme, the setting of investment policy, the guarantee of funds invested and the on-going audit of investment initiatives. Compensating disaster affected persons need not be more complex, in principle than providing for the many current types of income deductions and government subsidies prevalent today.8[8]

However we have the problem of convincing the community, the media and finally the politicians of the worth of the belief. Money and cost of the proposal are not necessarily of paramount importance; those are frequently convenient excuses used by government for not doing something.

The basis for a campaign to convince the government of the rightness of the cause is to demonstrate to it that there is kudos in it for government. But given the community antipathy, currently, to a 'Carbon Tax', another tax would not seem palatable to the community unless there is bi-partisan support from the major political parties. The professed philosophical view of the Liberal National coalition that taxes should be reduced and most 'things' left to private enterprise would not seem to bode well for my proposal but:-

The bigger the kudos, the more rapidly we will advance towards the implementation of a National Disasters Insurance scheme.9[9]

Insurance coupled with mitigation offers a potentially powerful combination for reducing actual damage from natural hazards, while at the same time providing financial protection should a loss occur. Given the limited interest in voluntary insurance purchase, requiring coverage as a condition for a mortgage appears necessary if structures are to be protected. Not only should homes be covered by insurance, but so should businesses and public buildings. 10[10]

8[8] Schrader-Frechette K, 1986 Risk-Cost – Methodology and Equal Protection, Risk Evaluation and Management Plenum Press, New York

9[9] Smith R.G.A, (1983) Problems of Disaster Insurance in Australia, The Range and Scale of the Problems, Changing Conditions and Policies Centre for Disaster Studies, James Cook University of North Queensland

10[10] Kunreuther H, (1993) Combining Insurance with Hazard Mitigation to Reduce Disaster Losses, Natural Hazards Observer, University of Colorado, Boulder

The benefits for a world struggling with recession, drought, floods etc would I believe make this proposition very attractive to all levels of government and the community.

C. Formulas for the Distribution of Relief

Whenever I have raised the issue the resolution always seems to centre on the concept of need.

The aid should be distributed according to the persons need. But the definition of need is a very complex issue, for example if person A has had their \$650,000 uninsured house destroyed, and person B has had their \$160,000 uninsured house destroyed are their needs the same, ie a habitation, or should each receive full or part restitution of the value of their property.

Person A might argue that they have worked hard to achieve the asset that they have lost, and they deserve more aid than those who have not worked so hard.

Person B might argue that it would be a further denial of social justice if the more wealthy were fully recompensed and at a greater level than those through no fault of their own were socially disadvantaged.

In recent times in Australia, the initial response after a disaster has been to give every man, women and child an equivalent amount to cover their initial needs.

The funds for this were provided from the States funds according to their resources and then a further disbursement of funds on a dollar for dollar basis from the State and Federal Governments.

On one occasion, after floods which extended across the boundaries of two states, there was an initial problem when the more populous state offered more per person than the other State. This was resolved by both State Governments agreeing with the Federal Government that there should be one consistent amount.

After the initial disbursement of immediate relief there is typically an assessment of who should get how much from the various charities and relief appeal funds; and from State Community Services and Federal Social Security System.

Sometimes the relief appeals, through negotiated agreement combine their appeal funds and their disbursement. Other times various appeals and charities wish to remain independent and decide on their own criteria for disbursement.

It would seem to be more sensible to combine the appeal funds and have the one formula for the distribution of aid.

What should the formula be?

Should one include consideration of the size of their loss and the value of their assets and obligations.

From the Zeehan experience that was cited earlier in this paper, their approach was to form a committee which was chaired by a representative of the Premier of the State.

The membership comprised well respected members of the community including the senior local government official and the leading churchman.

This committee let it be known that they had put together a formula which included consideration of the number of dependants, degree of loss etc and that this would be used as the tool for deciding on the disbursement of funds.

The formula was never made public so that applicants for aid would not present their case weighted according to the criteria. But there was created the belief that this trusted group from the community would divide the money up in a fair and equitable way according to an objective formula that they had developed.

Trying to put a dollar figure on the value of a loss to an individual is impossible; one might see the loss as fate and another might feel the same loss as a catastrophe; or should one try and assess the degree of hurt that is felt and compensate accordingly.

Clearly this is not possible or desirable.

The only fair and truly equitable way is to continue any subsequent disbursement of aid in the same way as the original disbursement ie each person that is recognised as victim of the event will receive the same amount.

The only refinement might be the distinction between those that were fully and directly victims and those that are partially affected. If a third or more of the victims habitat needs to be repaired then they and all of the residents of that habitat will be eligible for full shares of the funds.

If less than a third of the habitat needs to be repaired then each resident will be eligible for two thirds of a share.

This disbursement should not take into account any insurance that the residents may or may not have taken out on their property.

There might be some concerns expressed by the large property owner saying their loss was greater than the small property owner, but implicit within their ownership of a larger property is the capacity to fund larger additional insurance; which will not discount them from getting as equal a share as other people from the relief funds.

D) The Consultative Process

Recovery of a community after a disaster is not something that can be done to a community.

The recovery of a community can only be effectively managed by working with a community.

This was illustrated very well in the aftermath of the Lockerbie airliner crash.

In that, it became clear by the third day, that there was a frustration and indeed a certain resentment within the community and that they were not being given the opportunity to be involved in a meaningful way in the restoration of the town and in the support effort. In the knowledge of the growing concern an immediate policy decision was taken to involve members of the community in every possible way...there is no doubt that this demonstrated the leadership and skills which were readily available within the community and which were to play a key role in the subsequent work of renewal within the town.11[11]

11[11] McIntosh N. (1989) LOCKERBIE A local authority response to the disaster, Dumfries and Galloway Regional Council

One of the key points from the Local Government Senior Executive was, never underestimate the power of the community to respond to meet its own needs given the support of the local authority. 12[12]

This power within the community can either be tapped and used in positive ways, or if ignored will be unleashed and seek relief in negative ways.

I have personally seen examples of this in communities affected by the Ash Wednesday bushfires in Victoria, illustrated by the increase in vandalism and petty crime by the teenage boys who felt rendered powerless by the event and useless by not being utilised in the recovery.

Although this section is entitled the consultative process, carrying with it the implication of just talking with people, I wish people to include in the concept of the consultative process that of the utilisation of victim labour; so that the consultation is not only thought of as talking with, but also a working with.

When I first saw the phrase utilisation of victim labour, it made me feel somewhat uncomfortable as it seemed to carry with it some implication of exploitation.

But the practical benefits of the concept again are ones that I have witnessed first hand.

When families had their home burnt to the ground in the Ash Wednesday bushfires, it was not unusual for the father of the family to feel that he had in some way let the family down. He saw his role either consciously or unconsciously as the bread winner and protector of the family.

That they were now without a home and had suffered significant loss meant to him that he had in some way failed in this duty.

If he was then stood to one side while repairs and restoration were undertaken on behalf of his family, he felt even further emasculated.

One of the difficulties that have been encountered is the different understandings of the consultative process concept. One perspective is that it is a process whereby the decision makers listen to the point of view of interested and affected people and their ideas are taken into consideration when the decisions are made.

Another perspective is that unless the decision makers do what I want then insufficient consultation has taken place and the process is a sham. *I am presented in reality with a fait accompli and they did not really want to hear what I had to say.*

The first is obviously the ideal, but sadly the second is often the reality.

Conclusion

Establishing the optimum functioning of a community after a disaster has to be based on the creation of the situation whereby individuals, groups and the community as a whole believe that their knowledge, skills and experience have been effectively utilised in the recovery of their family, group and community.

They need to feel involved, their sense of ownership utilised and fierce commitment fostered. Without pride there can be no optimum functioning of a community.

A simple but very effective device post disaster is to call a meeting with the disaster affected community as soon as possible and take them through the following process:-

1. Ask them to list all of their concerns, this list must be produced in front of their eyes and displayed for them all to see; evidence that they are all being listened to.
2. When they have no further items to add to the list, get them to indicate those items that have the highest priority for them; you might need to give them some criteria to use; e.g.
 - a) affects the most people, will cost the most to fix;
 - b) needs to be fixed now or could wait a few weeks or months
 - c) is slowly getting worse, static or rapidly deteriorating;
 - d) would be fully responsive to some intervention, action could have some effect, no matter what was done it would not change.

This priority list will then form the basis for priority action according to the needs of the community, not what some outsider feels will be best for them.

The strengths of this process are that they can see why their concerns have been accorded the priority they have by the group; they may not agree with the decision but they can at least accept the decisions because they have been part of the process.

The conclusions of the group may not be RIGHT but they believe they are right and they will be committed to making them work.

The managers of this process who wish to achieve the RIGHT decisions can only achieve them by providing the group with all the information possible so that the group give their consent in light of all the facts.

But at the end of the day, it is their decisions about their community which they will live with. Prior to any action being taken on this list, there should be an assessment of the capabilities of the community for self-help and only when the recovery need is beyond the capability of the community should their efforts be supplemented with external resources.

Supplemented, not supplanted.

Finally, I hope that in this brief paper I have created the realisation that prior planning for Recovery Management is a vital part of **EMERGENCY PLANNING**.

Mr John Lunn