

National Disaster Insurance Review

It was quite by accident that I became aware of this review. I was idly reading the Sydney Daily rag on a flight, when I noticed the advertisement for the review.

A check of your website would indicate that the Minister has made only three press releases on the matter in the last four months. Obviously, not enough, for such an important issue.

This is a matter of National Importance, and should be widely canvassed to get the ideas from the best brains in the country.

As it appears that there has not been a great deal of advertising of this review, you are going to have to be satisfied with what the best brain in Kuttabul has to offer.

Current Situation:

In the recent Queensland floods and in the Victorian Bushfires last year, a huge amount of money was donated by members of the public, to provide support for those who were affected by the disasters. I personally donated to the Fire appeal, but would not have, had I heard the statements made by State officials earlier. Statements were made that the first distribution of funds would go to those who had no Insurance. Anna Bligh said a similar thing, when she launched her appeal for the flood victims. On hearing this, I made a conscious decision not to contribute.

My reason is, I own a number of properties in areas where there is an extremely remote chance that they will be affected by flood or bushfire, but in order to protect my assets against all eventualities, irrespective how remote that threat is, I pay an annual insurance premium. I do this for two reasons. One, to ensure that I will be able to have my assets returned to their previous condition in the event of a disaster, no matter how remote, and second, to boost the pool of funds available to the insurance companies to pay out on such disasters, and by contributing to that pool, keeping the premiums down.

I am not inclined to voluntarily contribute to people who do not pull their own weight.

People do not insure their properties against such disasters for a number of reasons,

- They consider the premiums beyond their budget,
- They have not conducted a thorough risk assessment of the property to determine what is the probability of it being subject to disaster damage
- There is no mechanism to force people in at risk areas to compulsorily insure their property against the most likely risk.

These issues could be addressed by a number of Regulatory measures, but I am not inclined to propose an increase to the already burdensome level of regulation that currently exists. Any measure that is to provide an equitable compensation for natural disasters must be shared evenly, across the entire population.

The Proposal:

Currently, Australia is subject to the follow of Natural Disasters from time to time;

- Bushfire,
- Flood,
- Cyclone/Storm Surge,
- Earthquake,

There are probably a few more, but the definition of a natural disaster can be flexible enough to cover any event that was outside the ability of the community to control.

Currently, the burden for the insurance against these disasters rests with the property owners who are in the areas normally subject to those threats. Eg A property owner in Coober Pedy does not insure against flood. (Whatever the obscure definition of a flood is- but that is another matter!)

My proposal is that every rated property in Australia pays a premium to a Natural Disaster Fund based on the current rated value of the property. The intention of the fund would be to make good the real asset on the property subject to the rate. The premium for each property would be a percentage of the current rates paid. The Actuaries could work it out, but let's say it is 2% of current rates, on properties that I currently own it would be about \$105 per year.

I am currently paying these rates to the local council. The simplest administrative way of handling it would be to legislate for the Local Government authorities to add the premium percentage to their annual rates notice, collect the money on behalf of the Natural Disaster Fund and remit it daily to the fund, retaining a 5% administration fee.

Such a system would be relatively easy to administer, easy to audit, shared across all property owners in the country and to the benefit of all property owners.

Effect on Insurance Companies:

There is currently mass confusion regarding what is covered by current insurance policies. People have paid premiums for years in the belief that they will be covered for some natural disasters, only to find that the insurance company has no intention of honouring the policy due to a technical interpretation of some clause.

A Natural Disaster Fund, such as I have proposed would take away that uncertainty, but there would still be a need for people to insure against normal risks.

The Natural Disaster Fund will not cover a fire caused by the kids dropping a blanket on a heater setting the house on fire. But it will cover the other houses in the street that were burned down because the 100 km/hr wind spread the fire beyond the control of the local emergency response.

Flooding due to a broken water pipe will not be covered, but flooding resulting from a water main broken as a result of an earth tremor will be covered.

The Natural Disaster Fund would not cover personal possession or furniture and fittings as there would be an expectation that the owner would be responsible for the insurance or replacement of personal items.

There will still be enough general insurance work to keep the Insurance Companies in business.

Perhaps, the Insurance Companies should be speaking to the banks to ensure the banks enforce the requirements for borrowers to ensure properties subject to a mortgage.

I recently borrowed a considerable amount to purchase a commercial property. At no time during the transaction did the finance institution request confirmation that I had an insurance cover on the property. It was in fact a week after settlement that I arranged the insurance.

Conclusion:

An insurance levy against all rated properties in Australia is the most equitable way of ensuring that there is a Natural Disaster Fund available to compensate property owners for damage due to circumstances beyond the control of the property owner or the State.

Such a fund would, over a period of time, generate a surplus of funds that could be used for capital works to mitigate possible damage due to natural disasters, such as establishment, maintenance and augmentation of levee banks in flood prone areas, raising main transport routes above known flood heights, placing power transmission services underground in bushfire prone areas, improvement and development of bush fire fighting capabilities, construction of Cyclone shelters etc. etc.

The last few years have been very expensive for the Government, not to mention the communities affected by the recent Natural Disasters. The grief wrought by the events pale into insignificance when one considers the uncertainty faced by a large number of the victims, because of the difficulty of dealing with insurance companies and the perceived ineffectiveness and confusion associated with the distribution of donated funds.

Take that uncertainty out of any future natural disaster and put in place a simple straight forward system that replaces any real assets damaged as a result of a natural disaster.

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