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Insurers identify measures to address flood policy affordability

The Insurance Council of Australia today reiterated its position that direct, short-term government subsidies are the best mechanism to address flood insurance affordability issues.

ICA Executive Director and CEO Rob Whelan said insurers explored a number of options in the ICA's [July 2011 submission](#) to the Natural Disaster Insurance Review.

The ICA's submission proposed that direct government subsidies to owners of identified high-risk properties, tapering off after several years, was the appropriate economic measure to address the issue.

Mr Whelan said home owners most in need – those whose properties were at high to extreme risk of flooding as a result of poor mitigation or land-use planning – could receive direct premium subsidies from governments, using a model proposed by the insurance industry.

“We believe the first homebuyer's grant scheme is an appropriate guide. The scheme would incorporate annual subsidies from government for these policyholders until all levels of government undertook mitigation to remove the flood risk,” he said.

The ICA's submission responded to a proposal to create a flood pool for payments to future flood victims whose properties were uninsurable at affordable prices. The ICA said a flood pool would only create another layer of government bureaucracy, and policyholders and taxpayers should not pay for a pool when there were other, better remedies.

Mr Whelan said the Productivity Commission was probably best placed to examine appropriate economic measures to assist at-risk communities with insurance affordability, including examining how the long-term interests of these communities could best be met in adapting to the impacts of extreme weather.

However, he said government subsidies were only a short-term solution to a larger, long-term problem, and that unless the root causes of flood damage were attacked, they would continue to impact at-risk communities.

Mr Whelan said: “Prevention is better than compensation. The real issue is, how can governments and communities act to prevent these kind of events harming towns and cities in the future?”

“Insurance is there to help Australians pick up the pieces after disasters. It cannot prevent floods and other catastrophes. Governments need to put physical mitigation infrastructure in place to protect these towns and suburbs.

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“They also need to act on other pressing measures, including improving building codes to make buildings more resilient to disasters, changing land-use planning to prevent further development in at-risk areas, and remove taxes and other imposts that make insurance less affordable.

“Measures that lower the level of risk mean insurers are able to lower the cost of insurance.”