

ADAPTING TO CHANGING RISK

Mike Wilkins

The enormous scale of destruction and human loss arising from recent catastrophes has horrified us all and highlighted the vulnerability of our towns, regions and livelihoods to the forces of nature.

Australia's tragic summer has understandably generated a national discussion of how we reduce our vulnerability to such threats. The outcome of this discussion is of critical national and economic importance to all of us – governments, businesses and individuals. As both our population density and the incidence of such severe weather events increase, we must build our resilience to catastrophe so we spend less of our limited resources on rebuilding and more on investing in the future.

We must avoid the temptation to indulge in a national 'window dressing' exercise that may provide a short-term fix but ultimately leaves us with the same systemic weaknesses when the next major disaster strikes.

Instead, we need a coordinated approach that involves building a greater self-awareness among individuals for their own personal risk, encouraging greater self-responsibility and a more efficient distribution of these risks via insurance, and adapting our built environment to reduce the impact of events when they do occur.

The first step is to increase the level of transparency about the risks that apply in various locations. Too many local governments have been allowed to get away with either withholding or just not providing crucial information about the nature of bushfire or flood risk in that area. In the case of flood, the lack of adequate flood mapping for large swathes of Queensland is the reason many insurers have been unable to offer flood cover in that state.

Given the high level of such risks in Australia, we should follow the lead of other countries and invest in detailed digital elevation mapping, so that the risk of disaster at an individual address level is more adequately understood. This information would quickly pay for itself through its usefulness to a range of groups, including councils, developers, architects, banks, building societies, individuals and, of course, insurers.

It stands to reason that where an individual has a greater understanding of their personal risks, they will take steps to minimise their exposure. Across a community this can have a very powerful effect.

Australia's insurance industry already supports the community by injecting over \$20 billion each and every year into areas of the economy hit by misfortune, removing a substantial burden from government.

Clearly it is in our national economic interests to encourage as many Australians as possible to take the responsible decision to cover their personal risk. The broader the uptake of insurance, the lower the expectation on the taxpayer to step in and act as "insurer of last resort" when the worst does happen.

Yet non-insurance and underinsurance remain chronic problems in Australia, with around 1.8 million Australian households estimated not to have any cover.

This may have something to do with the fact that Australians pay more tax on their insurance policies than just about any other nation – well over \$4.25 billion. In some states, home and contents or business policies are taxed on a similar level to gambling or tobacco and in NSW taxes can add a crippling \$40 to every \$100 of premium.

Adapting our built environment also offers a “win-win” outcome, minimising damage when events do happen and therefore reducing the costs of risk mitigation (including insurance).

Strengthening building standards to reflect changing risks will also help manage the cost of that risk. The improvement to building codes in cyclone-prone areas in north Queensland following Tropical Cyclone Larry contributed significantly to resilience of many homes hit by Tropical Cyclone Yasi last February.

Planning authorities must also be a lot tougher about their planning and zoning decisions. Development simply shouldn't be allowed in areas of unacceptable risk. In those isolated cases where the risk is extreme and the cost of cover or other protective action is simply uneconomic, governments may need to look at the difficult decision to resume land. This is not just a cost issue – it is a moral issue when the lives of residents and emergency workers may be at stake.

In those areas where questionable planning decisions have been made in the past, there needs to be investment in adequate infrastructure like barrages for unusual tides, levee banks, sea walls, properly maintained fire breaks, access trails and improved drainage.

The current Natural Disaster Insurance Review is the perfect opportunity for us to take real strides towards building our national resilience. Let's make sure the next time we are confronted by such an unusual concentration of natural disasters, we have made the most of this opportunity.

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