

# **PROTECTING OUR COMMUNITIES AGAINST NATURAL DISASTERS**

## **Presentation to the Trans-Tasman Business Circle**

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### **INTRODUCTION**

While it might seem strange to be talking about natural disasters on a fine Sydney day, this is actually when we should be talking about them; when we have time to prepare and think constructively about all the issues involved.

Australians and New Zealanders are no strangers to natural disasters.

Our countries are prone to them. Floods, bushfires, cyclones, hailstorms and earthquakes all cause the destruction of property, and, in some instances, loss of life.

We have experienced them all over the past 12 months – and that's in a year that, from an insurance perspective, has been relatively benign. Nothing like 2011.

But while the overall numbers are relatively low, try telling people that's it's been relatively benign if they have suffered from bushfires in the Blue Mountains, Perth Hills and country Victoria or, floods in the Flockton Basin, in Christchurch, or storms in Greymouth.

The point I'm making is that natural disasters can't be ignored. We always hear about the big ones and we remember the bad years. But natural disasters are a regular part of our landscape; they happen every year and they have a devastating impact on the people they affect.

While we can't change the fact that they occur, we can find ways to reduce their impact.

Too often we think about natural disasters after they happen but the time to think about them is now - when the sun is shining.

Today I want to focus on:

- Lessons learned from natural disasters on both sides of the Tasman;
- How we can be better prepared in the future;
- The crucial role that governments, business and the community will play in building more resilient nations; and, specifically;
- The opportunity we have in Australia to change our approach through the current Productivity Inquiry into Natural Disaster Funding. That's an opportunity we mustn't squander.

### **OUR ROLE AS INSURERS**

As Australia and New Zealand's largest general insurer, responding to events is central to what IAG does. Through our insurance brands, including NRMA, RACV, CGU, State, AMI and NZI, we insure 8.4 million cars, 2.9 million family homes, 409,000 businesses and 172,000 farms. Last year we paid out \$6.6 billion in insurance claims.

The point of insurance is that, when the worst does happen, insurers step in to minimise disruption and financial fallout and help families and businesses quickly get back on their feet. I'm proud of the role our people play in providing certainty and assisting customers in times of need. And they are often at the very forefront when disasters strike.

In insurance you see first-hand the devastation that disasters cause. I will never forget going into the area of the 2009 bushfires in Victoria. It was one of the most confronting things I have experienced in my life

I was in Kinglake on a street where all the houses were totally destroyed - the interesting thing was that there was nothing left but Hills hoists and metal letter-boxes. They were the only things that had survived the fire.

The police had put blue and white tape on the letter-boxes to indicate the homes where people had died. I vividly remember standing on one section of the street and looking down it - there was police-tape on all the letter-boxes. Lives had been lost in every single house.

It's something that five years on still haunts me. That really brought home to me the terrible nature of natural disasters and its one of the reasons why I feel passionate about everything we can do to make others safer.

#### **NATURAL DISASTERS IN 2011**

2011 was the worst year on record for natural disasters in Australia and New Zealand and, like 2009, few of us will forget it quickly.

We went through an unprecedented series of floods, cyclones and storms in Australia and the worst disaster on record in New Zealand with the Canterbury earthquake.

There was a devastating toll on lives, property and businesses and a psychological toll on families and communities and, in a lot of cases, that is still being felt.

There was huge financial cost as well. In Queensland alone, insured losses from catastrophes in 2011 were around \$5 billion while the Australian and Queensland Governments incurred over \$7.5 billion in reconstruction and recovery costs. In Christchurch the total cost of the earthquakes of 2010 and 2011 has been estimated at NZ\$40 billion.

IAG's businesses received over 150,000 claims related to natural hazards over a 12-month period.

Putting that in a global context, the Oceania region, our part of the world, contributed 17 per cent of the entire world's insured losses in 2011. That was a huge jump. The number had averaged just three per cent for the preceding 30 years.

The events of 2011 provoked public discussion on how we prepare for and respond to natural disasters at a level we had not seen before. Much of that played out through Government inquiries and media coverage and is still being debated.

In Australia, the Productivity Commission has started a national inquiry into natural disaster funding arrangements which I commend. It's important and it's very timely.

The experiences of Australia and New Zealand, while very different, have highlighted the need for communities to be prepared. It's critical that we learn from these events and use what we have learned to reduce risk and make our communities safer.

### **THE NEW ZEALAND EXPERIENCE**

Turning to New Zealand: from an insurance perspective, the Canterbury earthquake of February 2011, following on from the earthquake in September 2010, was the world's third largest insured natural disaster. That's due to a combination of the scale of the damage and the high level of insurance cover.

As a reminder of what occurred:

- Tragically, 185 lives were lost;
- out of 185,000 homes in the region, 170,000 residents reported damage;
- 20,000 houses needed to be built;
- there have been more than 13,000 earthquakes in the Canterbury region since 2010.

The estimated cost of NZ\$40 billion is more than 20 per cent of New Zealand's annual GDP.

Fortunately people in Canterbury were well insured. Eighty per cent of total losses were insured – that's the highest level of insurance coverage of any catastrophe globally. By comparison, in the terrible Japanese tsunami the same year, insurance coverage was only 20 per cent, which means that much more of the burden for rebuilding in Japan fell on the Japanese government and its taxpayers, not insurers.

However, the enormity of the earthquakes in and around Christchurch, and the complexity of the recovery, means three years on, the recovery effort is still ongoing.

IAG has repaired or rebuilt customers' homes in accordance with new planning provisions for more resilient homes. It would have been easier to just make cash settlements but our focus is on building stronger, safer more resilient homes to give our customers greater confidence in the future. We feel our responsibility is not just to make a settlement but to help rebuild the city.

So far we've settled more than 40,000 claims and expect all residential claims to be settled by the end of 2015.

The complexity in Christchurch comes not only from the persistent earthquakes but also from physical changes to the landscape. Disruption of the landscape has meant some rivers have changed course and the level of the land has lowered in some places, like the Flockton Basin, making them more prone to severe flooding. That's something that wasn't foreseen before the earthquakes.

Our experience in flood mapping for Australia has allowed us to assist a Christchurch City Council initiative to redraw flood maps in the changed landscape.

We have also committed to research so that the experiences of the Canterbury earthquakes can be turned into lessons to improve how communities recover from future disasters. We have started working with PwC on a framework for how we do that.

As a result of the Canterbury earthquakes, New Zealand has made a number of changes to how it prepares for natural disasters. One of the most significant is the centralisation of natural disaster planning and coordination at the highest level of government.

Last November, State Services minister Jonathan Coleman and Civil Defence Minister Nikki Kaye transferred emergency and natural disaster management to the Department of Prime Minister and Cabinet to strengthen New Zealand's ability to respond to and plan for major disasters.

In this respect New Zealand is ahead of Australia. That's something we have been advocating for. It's needed here too.

### **AUSTRALIA'S RESPONSE TO NATURAL DISASTERS**

In Australia, we have a climate that produces extreme weather and a lifestyle that means we want to live next to the bush, or close to the coast, in areas vulnerable to extreme weather.

One in four Australians lives within three kilometres of the coast and four out of five are within 50 kilometres - many in areas exposed to tropical cyclones, storm surges, and coastal river flooding.

In dealing with natural disasters, our Government, like many governments worldwide, has focused on post disaster relief – writing cheques for disaster recovery rather than investing in preventative measures.

The average annual government spend on post-disaster recovery measures is \$560 million, 10 times more than is spent on investing in preventative infrastructure, like flood levees which are relatively easy to put in place, to reduce the impact.

I'm sure I'm not alone in thinking that prevention is better than cure - we would be better spending more to prevent the loss of life and property in the first place than repairing the damage afterward.

Natural disasters in Australia cost an average of \$6.3 billion per year. That's expected to increase to \$23 billion by 2050 because of population growth and internal migration to areas that are more prone to natural disasters. Outside of Melbourne and Sydney, coastal Queensland will see the fastest population growth.

### **CHANGING THE APPROACH**

The need for a different approach to preparing for natural disasters had been part of our thinking for a number of years but the urgency of it became clear in 2011.

Being an insurance company, we look at the safety of everything: our roads, cars, homes, businesses and our environment. We invest heavily in research and have a whole natural perils department made up of scientists, climatologists, meteorologists and engineers who constantly model risk.

Out at Newington, in Sydney, we have a specialised research centre where our researchers develop practical safety research and have come up with creative ways to test the resilience of a lot of things we take for granted.

For example, they simulate car crashes to test the safety features of cars. They've even developed a hail gun which they fire at roof tiles and car panels to simulate the impact of a major hailstorm. It's one of only two research centres of its type in the southern hemisphere.

So we take risk seriously and we put a lot of resources into it. But dealing with natural disaster risk was much bigger than us. It became clear that all of us - insurers, business, government, humanitarian organizations and the community needed to be involved.

In May 2012 we pulled together what we called a Risk Summit. We thought that if we are going to drive real change in how we better manage weather risks, road, business and property risks we needed everyone pulling in the same direction.

So we brought together 60 risk experts from academia, NGO's, emergency services, community groups, government and business to help us identify the things we needed to do to make our society safer and more resilient. I'm very indebted to people who gave up their time to talk through some difficult issues.

One of the outcomes was the formation of a new group: the *Australian Business Roundtable on Disaster Resilience & Safer Communities*. Its aim is to influence public policy, increase the level of investment in building safer communities and improve the capacity of people and businesses to better withstand natural disasters.

Alongside IAG, the Roundtable comprises the CEOs of the Australian Red Cross; Investa Property Group; Munich Re; Optus and, Westpac. They are all great partners.

Recently we were asked by a journalist about this group. He said: 'I understand what you are trying to do but why are these big corporations involved? Isn't it the role of Government to fix this?'

I think it's important for Government to see that there's a coalition that consists of business, social and humanitarian organizations stepping up to support government and communities. That's what gives it traction.

All the members of the Roundtable have seen first-hand how natural disasters can devastate whole communities, disrupt local and business networks and cause significant injury and loss of life.

They are all organisations that have significant expertise in disaster resilience and dealing with the aftermath of disasters: whether that be telecoms, construction, the financial impact or, the social and psychological impact .

The Roundtable is the first time that organisations in Australia have come together to focus on this issue. I know from our contact with the United Nations Office for Disaster Risk Reduction that it's seen as a leading global program by the UN.

### **LAUNCHING THE WHITE PAPER**

The Group was formed in December 2012 and six months later launched a White Paper, in Canberra, that recommended a fresh approach to the way Australia deals with natural disasters.

The reaction from Government and the community has been very positive and the Roundtable work has helped prompt a Productivity Commission Inquiry into natural disaster funding arrangements.

Terms of Reference were announced at the end of April by Treasurer Joe Hockey and Minister for Justice Michael Keenan with the inquiry due to make its recommendations before the end of the year.

I see this Inquiry as a once-in-a-generation opportunity to change the way we approach natural disasters and natural disaster funding in Australia. We need a more effective model where the emphasis is on preventing loss of life and property, rather than just repairing the damage afterwards.

The Australian Government has a key role as a leader, policy-maker, legislator and funder to address the effectiveness of natural disaster funding.

I'm hopeful that the Inquiry will move us in the right direction but we must act in the national interest and cut through the discussion over federal and state responsibilities.

Natural disasters don't stop at state borders.

We need a more sustainable, comprehensive, national approach to managing them.

The Roundtable will be making a submission to the Productivity Commission Inquiry. It will build on three key recommendations that we made in the White Paper launched in Canberra last year.

First, it is essential to establish a National Resilience Advisor within the Department of Prime Minister and Cabinet – similar to what's been done in New Zealand. There's also a need to set up a Business and Community Advisory Group to ensure policy development and decision-making benefits from the expertise of business and not-for-profit sectors.

Second, set up long-term funding for pre-disaster resilience, such as preventative infrastructure to reduce the impact of natural disasters and, invest in community education.

I spoke earlier of the economic cost of natural disasters in Australia. Research by Deloitte Access Economics for the White Paper shows that if we changed the equation for disaster spending by investing more upfront, we would have to pay less in repairing the damage after disasters happen. For example, an annual investment of \$250 million a year would lead to budget savings in 2050 of \$12.2 billion; that's half the expected cost.

More importantly it will help save lives and protect property.

Simple cost-benefit analysis reinforces this point. As an example, building new houses to a more cyclone resistant standard in Southeast Queensland, would reduce cyclone risk for these homes by 66 per cent and save \$3 for every dollar spent. The cost would be around \$2,600 to \$6,500 for each home built.

The third recommendation is to identify and prioritise activities.

That needs to be supported by better co-ordination and more effective use of research and data. The Roundtable recently commissioned a report to review international best practice and stock-take what research and data is out there in Australia.

We can't build resilient communities without better access to information for governments, business and the community.

We want to identify where there are information imbalances or gaps in research and, ensure data is accessible to decision-makers who need it.

## **CONCLUSION**

So in conclusion, natural disasters are an important issue for all Australians and all New Zealanders. The events of 2011 focused attention on the need to change the way we think about them.

For IAG it reinforced awareness that as well as protecting families and business from financial loss, we have a more proactive role to play in helping communities, business and governments understand risk and how to prevent or reduce it. One of the ways we are doing that is working with our partners in the *Australian Business Roundtable for Disaster Resilience & Safer Communities*.

New Zealand has made significant changes to the way it approaches natural disasters. In Australia, the Productivity Commission Inquiry provides us with a once-in-a-generation opportunity to do the same. We need to seize that opportunity.

Community involvement and partnership are key to resolving this.

Natural disasters are regular occurrences on both sides of the Tasman. We can't stop them but, through preventative measures that make communities safer and more resilient, we can reduce their impact and save lives and property.

Thank you.