

# TRANSCRIPT

## LEGISLATIVE COUNCIL ENVIRONMENT AND PLANNING COMMITTEE

### **Inquiry into the 2022 Flood Event in Victoria**

Melbourne – Monday 20 November 2023

#### **MEMBERS**

Sonja Terpstra – Chair

David Ettershank – Deputy Chair

Ryan Batchelor

Melina Bath

Gaelle Broad

Wendy Lovell

Samantha Ratnam

Rikkie-Lee Tyrrell

Sheena Watt

#### **PARTICIPATING MEMBERS**

John Berger

Ann-Marie Hermans

Joe McCracken

Evan Mulholland

Rachel Payne

**WITNESS** (*via videoconference*)

Kylie Macfarlane, Chief Operating Officer, Insurance Council of Australia.

**The DEPUTY CHAIR:** Good morning. All evidence taken is protected by parliamentary privilege as provided by the *Constitution Act 1975* and provisions of the Legislative Council standing orders. Therefore the information you provide during the hearing is protected by law. You are protected against any action for what you say during this hearing, but if you go elsewhere and repeat the same things, those comments may not be protected by this privilege. Any deliberately false evidence or misleading of the committee may be considered a contempt of the Parliament.

All evidence is being recorded, and you will be provided with a proof version of the transcript following the hearing. Transcripts will ultimately be made public and posted to the committee's website.

With that, I invite the committee members to introduce themselves.

**Sheena WATT:** Good morning, I am Sheena Watt, Member for Northern Metropolitan Region.

**Rikkie-Lee TYRRELL:** Hello, I am Rikkie-Lee Tyrrell, Member for Northern Victoria Region.

**Wendy LOVELL:** Wendy Lovell, Member for Northern Victoria.

**The DEPUTY CHAIR:** David Ettershank, Member for Western Metropolitan Region and acting Chair for today.

**Samantha RATNAM:** Morning. Samantha Ratnam, Northern Metropolitan Region.

**Gaelle BROAD:** Hi, Kylie. Gaelle Broad, Member for Northern Victoria.

**Melina BATH:** Hello. Melina Bath, Eastern Victoria Region.

**Ryan BATCHELOR:** Ryan Batchelor from the Southern Metropolitan Region.

**Kylie MACFARLANE:** Thank you.

**The DEPUTY CHAIR:** Thank you. We would now welcome your opening statement. If you could keep that to about 10 minutes, that would be terrific, and we will move to questions after that. So, please, thank you.

**Kylie MACFARLANE:** Thank you, Chair. Good afternoon, everybody. I am pleased to be here before you virtually today to discuss the insurance industry's role and response to the record-breaking flooding in Victoria in 2022. Of course firstly I would like to acknowledge the Jagera and Turrbal people, the traditional custodians of the lands I am located on here in Brisbane, and pay my respects to elders past, present and emerging.

In 2022 Australian communities experienced the worst year of flooding in living memory, with record-breaking flooding in south-east Queensland, northern New South Wales, central-west New South Wales, Hawkesbury and Nepean, northern Victoria, Melbourne and Tasmania. Across these events there have been 303,407 insurance claims lodged, totalling almost \$7.4 billion. At the time the flooding started in south-east Queensland in February 2022, there were already 85,953 open insurance claims driven by six declared insurance catastrophes in 2021.

External factors made responding to flooding events in 2022 particularly challenging. Australia was recovering from COVID conditions that created that a historically tight labour market and building materials constraints. The price and availability of new and used cars and rental vacancy rates were all affected. The scale of the flooding events in 2022 tested claims processes at a scale never before seen and exposed vulnerabilities in insurers' claims and complaints handling responses, particularly in catastrophe planning, resourcing, processes, technology, communications and governance. Recognising the magnitude of the events, the challenges and the opportunity to look inwards and learn, the ICA commissioned Deloitte to examine the operations of eight insurers who together received 99 per cent of all home and contents, motor and small business claims related to the floods that impacted northern New South Wales and south-east Queensland in February and March 2022, the event that we call cat 221.

The scale of cat 221 was beyond the prior experience of the Australian insurance industry. While all insurers had catastrophe plans in place, cat 221 occurred over such a widespread and heavily populated area that even the most comprehensive catastrophe response plans were exceeded. One insurer advised Deloitte through the review that they had completed planning considering scenarios with a maximum spike of 3000 to 4000 claims when in fact they received three times that.

Cat 223 is the name of the event that occurred in central-west New South Wales and Victoria. On Wednesday 19 October the ICA escalated its significant event declaration to an insurance catastrophe for the regions of Victoria, Tasmania and New South Wales impacted by severe weather and flooding that had occurred since 12 October. This event, as I mentioned before, is denominated as cat 223. Under the catastrophe declaration, claims from affected policyholders are given priority by insurers. Claims are triaged to direct urgent assistance to the worst-affected property owners. Insurers mobilised disaster response specialists to assist affected customers with claims and assessments from as early as 3 November, and ICA representatives mobilised to work with local agencies and services and affected policyholders from 25 October. An industry working group has been established to identify and address issues and monitor recovery. All of these things happen once we declare a catastrophe. As at 23 October this year the insurance industry has received from Victoria 11,604 claims, a total cost of \$501 million of insured losses, \$360 million has been paid to customers already and 77.8 per cent of claims are closed.

The ICA has welcomed the responsive and collaborative approach taken by Emergency Recovery Victoria. In the event's initial stages and after the flooding in Melbourne, ICA was given access to the State Control Centre. This was ideal and enabled holistic situational awareness and issues management across agencies and sectors during the early response phase. We are currently working with ERV to develop recovery arrangements to incorporate and codify collaboration across situational awareness, data sharing, state-coordinated clean-ups, grants eligibility and resilient recovery. We recommend this work is prioritised to ensure the most effective working relationship should disaster strike again and regardless of what event happens next.

Community engagement is critical to ensuring communities have a forum to receive information, ask questions and consult with the ICA, their insurers and other support networks, including the Australian Financial Complaints Authority, or AFCA, and community legal services. In Victoria ICA has facilitated five town halls and 12 consultations with almost 800 registrations and over 1000 people combined at those events, and these occurred in Rochester, Echuca, Moama, Mooroopna and Maribyrnong.

I will say a few things about the Deloitte report as well. As I have mentioned before, the ICA commissioned the Deloitte report, *The New Benchmark for Catastrophe Preparedness in Australia*, released in October. It presents seven recommendations for improvement, noting that not all recommendations will apply to all insurers to the same extent. The first is preparedness: insurers should improve their catastrophe planning, particularly their preparedness for extreme catastrophes like cat 221. The customer experience should improve so that the customer is during a catastrophe receiving better communication from their insurers and being delivered a consistent experience through the claims-handling and complaints process. Resourcing is the third: insurers should redesign resourcing capability for catastrophe events, with a particular focus on workforce planning and resourcing and the onboarding of workforce during a catastrophe. Operational response: insurers should access what operational efficiencies could be delivered in catastrophes through process improvement, technology and infrastructure investments.

Another area is governance and transparency, with insurers having to improve their ability to capture and leverage data and insights to understand the impact of internal and external factors on the performance of the claims-handling process during a catastrophe. Coordination with government is important, and Deloitte highlighted that more effective coordination between government and the insurance industry is required so communities can have faster access to government funding, consistent approaches to clean-up and debris removal and co-incentivised investment in resilience and adaptation measures. And finally, Deloitte recommended that the ICA, in its independent code review in 2024, review the extraordinary catastrophe nomination and definition to ensure that it is fit for purpose.

The insurance council has accepted all of these seven recommendations in principle. The ICA will lead work to improve coordination with government and will refer the recommendation regarding the extraordinary catastrophe definition to the upcoming review of the general insurance code. An independent review of the implementation progress will be undertaken in the second half of 2024.

Now, moving to the protection gap – firstly, the protection gap is the public and private risks that are not covered by insurance. It is a critical concern in an environment of escalating exposures to extreme weather hazards and something that we are talking a lot about. It is imperative that industry and government prioritise action to improve the protection gap to ensure communities are sufficiently protected against physical and financial harm and limit pressure on public funding of extreme weather disaster recovery. To avoid the destruction of property, the disruption and the harm to people and livelihoods, the only sustainable strategy that can be taken is to directly address exposure to hazards.

The Actuaries Institute's report *Home Insurance Affordability Update* released on 14 August concludes exposure to extreme weather is the primary driver of insurance affordability and therefore a key factor contributing to the protection gap. In their complementary report *Funding for Flood Costs: Affordability, Availability and Public Policy Options* the institute identifies three categories of measures that could be considered to reduce the protection gap: firstly, reduce risk; secondly, pool risk and cost sharing; and thirdly, direct government subsidies. The Insurance Council of Australia agrees with the institute's position that risk reduction is the preferred strategy for addressing the protection gap. Cost sharing and subsidies do not address the root cause of the protection gap nor the extreme weather event itself. If used in isolation, affordability may receive temporarily relief from subsidies. However, this would be fleeting, as in the medium to long term, funding costs will escalate as extreme weather worsens due to climate change.

**The DEPUTY CHAIR:** Ms Macfarlane, I am just going to have to ask you to wind up, if you would. There are a lot of questions that people are keen to ask you.

**Kylie MACFARLANE:** Yes, of course. Perhaps if I can just comment on the fact that we would want to see the Victorian government focusing on resilience investment, land use planning, building codes and, as I mentioned before, pre-emptive measures to ensure those who are most at risk are provided with either buyback, retrofitting or the raising of their homes to reduce the impact of future flooding events. Thank you, Chair.

**The DEPUTY CHAIR:** Thank you very much. We might start at the top of the table. Mr Batchelor, would you like to kick off proceedings? We have got about 8 minutes each.

**Ryan BATCHELOR:** Thank you, Chair. Ms Macfarlane, thanks for your contribution. The questions I have are going to what you are describing as the protection gap, which is essentially what we have had evidence on from a number of people now largely with activities or properties on flood plains for which they cannot get either any or enough insurance. From an industry perspective, and not going into specific examples, what do you think the main drivers of that inability to get enough, or any, insurance are?

**Kylie MACFARLANE:** At its most simplistic, insurance prices risk. So the price of an insurance premium will take into account the risks that are inherent on that property, and for people who are living on flood plains and are at most risk of a flooding event, their insurance will be priced accordingly. Now, some insurers may choose not to provide or offer insurance in those markets, and others will price as they deem appropriate for the risk that they are looking to cover. At the moment, insurance premiums are being impacted by three key issues. The first is extreme weather hazards and the increasing severity and frequency of those, as we saw in 2022. The next is inflation, and we are seeing this in everything from the price of groceries and at the fuel pump to energy prices – insurance is no different. And the third is cost of reinsurance. Reinsurance is the insurance that insurers buy to support them being able to respond to extreme weather events like 2022. The cost of reinsurance has gone up. In fact, for some insurers the cost of reinsurance has gone up by 20 to 30 per cent, and reinsurers are re-evaluating whether Australia is a place they want to place their capital moving forward. As we see a continuum of extreme weather events happening all around the world at the same time, they are looking at the best placement for their capital going forward.

**Ryan BATCHELOR:** One of the things that we had evidence of from an operator on the Maribymong was that while they had a limited amount of insurance available to them, they were unable to provide us with feedback that they had received from the insurer as to why the quantum of insurance that they had been granted was limited, in this case, to \$5 million. Typically, what feedback do insurers give to people seeking insurance when they are unable to get the amount of insurance that they desire? What feedback are insurance companies giving these organisations about why they are not getting enough coverage?

**Kylie MACFARLANE:** I cannot speak for the particular insurers, and without knowing the details –

**Ryan BATCHELOR:** But in general terms?

**Kylie MACFARLANE:** Yes, insurers will provide generic information to potential customers about the insurance and the coverage that is available. I would have to take on notice particulars of that – it will change from insurer to insurer, and it will change whether or not the insurer is using a broker to procure that insurance as well.

**Ryan BATCHELOR:** Do you think that providing that kind of feedback would help individuals and organisations better understand the risks and circumstances they are in so they can make better informed decisions? If part of the solution here is for people who are vulnerable to risk to know what risks they are vulnerable to, it strikes me that the more feedback they get about that the better. I am just wondering, from an insurance council point of view, do you have policies, do you have guidance that you give to your members about what best practice is in terms of informing insurance holders about the risks that they face?

**Kylie MACFARLANE:** Let us take that in two parts. Firstly, it is actually government's role to inform people of the risks that they have in the properties that they are investing in and buying, and we would and have been actively advocating for a public database for people in Australia to understand the hazards that they are exposed to to be able to make the appropriate decisions about whether or not they buy, retain or otherwise with homes or businesses that they are either living in now or seeking to buy in the future. Having access to uniform and publicly available hazard information is essentially important for people to be able to make the appropriate decisions about where they live, what they build and how they ensure they have the right levels of mitigation in their home, but also at the community level that that mitigation has been put in place as well.

From the insurance perspective, our members are all signatories to the General Insurance Code of Practice, and the General Insurance Code of Practice outlines and quite comprehensively looks at a number of areas of both insurance procurement and claims handling, and our members have to meet as signatories the, if you like, minimum standards that are put forward under the General Insurance Code of Practice.

**Ryan BATCHELOR:** Under that code, is one of the things required that insurers provide information to people as to why their insurance has either been declined or is not at the level that they desire or need?

**Kylie MACFARLANE:** I will have to take that on notice and go back and look at the code specifically for those sections, but the code definitely talks to the frequency of communication and how customers are engaged with. Ultimately customers can engage their insurers for information. If they do not feel they are getting sufficient information, they can raise a complaint with the insurer, and the insurer is then required to respond to that complaint through their internal dispute resolutions process. And then if a customer or a potential customer is unhappy with that response, they can escalate that complaint to AFCA and go through the external dispute resolution process. Again, the insurer is compelled to participate in that process.

**Ryan BATCHELOR:** Those are my questions, Chair. Thanks very much, Ms Macfarlane.

**The DEPUTY CHAIR:** Thank you, Mr Batchelor. Ms Bath.

**Melina BATH:** Thank you, Chair. And thank you very much for being here today. You mentioned very quickly at the start of your presentation some figures, so I just want to go back to those, please, Ms Macfarlane. 11,600 claims in Victoria alone: can you provide to us – you may need to take it on notice – the number of home owners versus business, the split in those?

**Kylie MACFARLANE:** Yes, about 87 per cent of the 11,064 claims in Victoria were home and motor.

**Melina BATH:** Yes, so 13 per cent.

**Kylie MACFARLANE:** I will give you a little bit more: the average home claim was \$43,000 and the average contents claim was about \$20,000.

**Melina BATH:** Thank you. You mentioned, of those, 78 per cent have closed –

**Kylie MACFARLANE:** Seventy-seven.

**Melina BATH:** Seventy-seven. So 23 are still outstanding. In relation to those, why are they outstanding? What is happening there?

**Kylie MACFARLANE:** There can be a number of reasons why claims are continuing to be managed, and each claim is particular to that individual's circumstances. Firstly, what I would say is the closure rate for cat 223 is tracking as per we see in most events, so the closure rates are normal, if you like, to that extent.

There are a couple of things that might be hindering the processing of a claim. The first is whether or not the individual home owner or business owner had flood insurance. In those circumstances hydrology would need to be procured and becomes part of the claims assessment process. The second is if the property needs to dry out – and drying out can take months – that unfortunately adds delay to any structural work that needs to be undertaken. The third one, particularly in the events we saw last year, was the lack of access to building materials and construction labour. In Australia at the moment we have more work than we have labour for, and that was certainly the case last year as we came out of COVID and saw those events start to hit from south-east Queensland down through the course of 2022. Insurers continue to work with those customers whose claims are not closed to ensure that those are being progressed. In an event like this it is not unusual to see some claims taking over 12 months, but they are typically the minority of the claims in the event.

**Melina BATH:** Thank you. That was leading to my next question. We have heard people when we are in northern regional Victoria saying that claims are still yet to receive compensation. Do you have an average time, an average period?

**Kylie MACFARLANE:** We do not. Every claim is quite unique, and it comes down to that particular claim and the particular circumstances of that claim. As I said, we have seen 77 per cent of the claims now complete; that is about in line. But where people have an extension of claim, if their claim is taking longer than normal, if they do not feel like they are getting enough information from their insurer, we would always say – and we have done this through the 17 community events that we have run across Victoria over the last 12 months or so – ring your insurer. Have a conversation with them, and ultimately if you are unhappy with that response, you can raise a complaint with the insurer. There is nothing wrong with doing that. It escalates the issue, and the insurer is compelled to respond.

**Melina BATH:** Thank you. Do you have a quantum of how many of those people have actually raised a complaint? Do you have that in your database?

**Kylie MACFARLANE:** No, I do not have the complaints data. That is probably a question best posed to AFCA.

**Melina BATH:** Yes, sure, thank you. You spoke about the materials and trades and the dearth or lack of availability. Are there any other bottlenecks that you see in terms of streamlining to get houses up and rebuilt?

**Kylie MACFARLANE:** Certainly the construction materials and labour are the most significant that we have got, not just in Victoria but throughout south-east Queensland, New South Wales, Victoria and Tasmania. We would encourage the Victorian government, looking forward but also looking at this current event, to look at how they can ensure tradespeople can flow easily across state borders and that there are emergency plans for accessing materials when it is required. This can be part of any scenario exercise and preparedness strategy.

**Melina BATH:** Thank you. I will leave my comments about native timber on the floor here; they are very well known by all here. You mentioned the Deloitte report, but in relation to changes to (a) insurance policies and then (b) premiums, could you speak to those? Post the floods, what changes are you going to implement?

**Kylie MACFARLANE:** Obviously, the insurance council itself does not implement any changes. That is done at the insurer level. Home and contents policies and motor policies continue to be provided. Members will look at the risks that they deem acceptable when preparing and developing those policies and then will outline the coverage of a policy within the product disclosure statement. We always encourage people to read their PDS, and we always encourage people to ensure they understand the cover that they are purchasing. It is a competitive market in Australia, so insurers will seek to provide the best possible policy they can in the view of that risk that they are taking or will make decisions not to provide policies in particular areas if they do not want to expose their book to a particular level of risk. From a premium perspective, as I mentioned before, there are three key drivers to the increasing premiums we are seeing in Australia the moment. The first is the frequency

and severity of extreme weather. The second is inflation. Just like it is affecting grocery prices and energy prices, it is affecting insurance prices as well. The third is the cost of reinsurance, so that insurance that the insurers purchase to support their ability to respond to an extreme weather event. That kind of trilogy of issues is seeing insurance premiums increase at this point in time.

**Melina BATH:** Thank you. Just in relation to that, and I have probably got about 30 seconds left, the cost of reinsurance – just drill down one more level in relation to that, please.

**Kylie MACFARLANE:** Certainly. Reinsurance, as I mentioned, is the insurance insurers purchase. Reinsurance is a global market, so reinsurers also are thinking about where and how they want to place their capital and the risks that they are looking at. Reinsurers have over the last 10 years seen Australia as quite a favourable location to place capital. However, we are now in a hardening market, and that has seen reinsurance prices go up and the access to capital declining in places like Australia. Part of that is driven by the fact that events are happening around the world now at the same time, so you are seeing hurricanes in America at the same time as you are seeing extreme flooding in Australia, heatwaves in England et cetera. Reinsurers are ultimately making decisions every day about how they place that capital, which means that insurers in Australia have to compete on the global market for that capital.

**Melina BATH:** Thanks, Chair.

**The DEPUTY CHAIR:** Thank you, Ms Bath. Mrs Broad.

**Gaelle BROAD:** Thank you very much. VicParks caravan parks across the state were mentioning that it is impossible for some of their parks to get any insurance at all. Public liability is becoming a bit of an issue. What is your recommendation to government? Obviously these parks have a very important role providing that emergency accommodation after an event, so what are your thoughts on insurance in that situation?

**Kylie MACFARLANE:** We are working very closely with the parks and caravans association to understand the issues around public liability in particular. We live, unfortunately, in a very litigious country, and for a lot of government contracts in particular there is a requirement for very high levels of public liability and indemnity. The prices of public liability coverage have gone up around the different lines of public liability cover. Our business advisory council has representatives from small business associations and other associations looking at this issue and working with industries to better understand the risks and to better understand what opportunities are available to try and reduce those risks and therefore allow insurers to price more favourably.

**Gaelle BROAD:** I guess there are a number of parks that are worried they may need to close without insurance, so is there a time frame on that work?

**Kylie MACFARLANE:** That work is ongoing at this point in time.

**Gaelle BROAD:** We have had feedback from meeting with people that their insurance premiums have jumped by significant amounts of money. We know with some places like Kerang, insurance companies are saying they will not offer insurance. Is it tipping too far? Are you seeing people leave the insurance industry? What does it look like as far as people maintaining insurance or just dropping off because they cannot afford it?

**Kylie MACFARLANE:** We are very worried about the protection gap. As I mentioned before, the protection gap is kind of the difference between what they need to cover and what they are able to cover. Quite often, particularly in an inflationary environment like this one, people are making decisions about where they spend their money, their salary and wages, to ensure the running of their home or business, and for that reason some people are making decisions to either reduce their coverage or to not take out cover. That concerns us. We know underinsurance is an issue, and we are working very closely with the federal government through the Hazards Insurance Partnership to look at ways to address that protection gap. It does require many different interventions, but certainly it does require investing in resilience and mitigation at the community and state level to help those communities reduce their risk and exposure to extreme weather.

**Gaelle BROAD:** Do you have any data on the number of people dropping out of insurance altogether?

**Kylie MACFARLANE:** We do not at the moment, other than to refer you to the Actuaries Institute report. At this point in time we do not have any particular data. I can take the question on notice and provide the

committee with what we have. But we do know that there is pressure on the insurance sector and that people are, through the cost-of-living crisis, making decisions about how they take out insurance, to what level, and how they fund the other components of their life.

**Gaëlle BROAD:** Now, your submission mentions buybacks. I guess I am interested if you could expand on that with the 2022 floods and particular areas. Would you make any recommendation about particular areas where a buyback program should be considered?

**Kylie MACFARLANE:** We were very pleased to see the Queensland and New South Wales governments announce their resilience programs, which included buybacks, raising and retrofitting, and those three components are vitally important. Buybacks are essential where people are in critically vulnerable locations. We are not talking about every house, but we are talking about those that are most vulnerable. Now, we are very happy to engage with the Victorian government to talk about what areas we see as critical; however, the government will do its own assessment on that, I am sure, to understand those different levels of vulnerability. We do think that pre-emptive buybacks are an important part of a future resilience strategy. We understand that buybacks are expensive. But they are expensive today; they are not expensive in the future. If you can remove the most vulnerable people from the impacts of extreme flooding or any extreme peril in the future today, then that will pay you back over the longer term. It reduces economic costs, it reduces that householder's costs and it reduces social costs. You know, it is not to be underestimated – the social costs of extreme weather events above and beyond the physical and environmental costs that we see.

**Gaëlle BROAD:** We met with people who were very frustrated that insurance companies were restricting them, if you like, in that you sort of build back to the same level. You cannot improve. Do you have any comments on that and flexibility?

**Kylie MACFARLANE:** Sure. Insurance is a contract, and the contract you take out will define how your building can be built back. Typically, a contract is like for like so that when you are building back you are building it back to the same standard that went before. Now, we have seen in New South Wales and Queensland the importance of government partnering where insurers are under a contract to build back like for like but government has come in and provided funding and resource to allow people to adapt their home for the peril that they are exposed to. That might have included raising their home, moving their services up above the flood line or putting particular building materials in their rebuild. The insurer is under contract to build back as per the policy that is in place, and typically that is like for like. Partnering with government, we can then see some of these betterment grants being effectively used for those home owners.

**Gaëlle BROAD:** You mentioned 77 per cent of claims are already going through and works are already progressing. Victoria seems to be lagging behind the other states like New South Wales and Queensland as well with that supplier program. Do you feel there needs to be a lot more work done in Victoria to bring it up to what other states are doing?

**Kylie MACFARLANE:** Remember this is a timing issue as well. Northern New South Wales and Queensland's events happened months before the Victorian flooding. We have seen overall there is an 85 per cent closure rate for the event for cat 223 in particular across the board. As I said before, really this is about making sure that we can get labour, get construction materials and are able to access those properties and do the work that needs to be done. Ultimately, anything the Victorian government can do to assist that process is obviously always welcome, but insurers are working as quickly as they can to close out those claims.

**Gaëlle BROAD:** Now, I am just interested too – we have had people complain. We visited Seymour, and they mentioned working with the insurance company, but they had to sign secrecy agreements. They could not help, then, the neighbour with a claim and getting information. Is there any advice or recommendation within the insurance industry to make that process easier for people to get claims or support by sharing information, or is it very restrictive?

**Kylie MACFARLANE:** I do not know the example that you are referring to, and I can certainly take it on notice. What I would say is when you buy an insurance policy you are buying a contract, and insurers will work with you to execute that contract in the event that an event occurs, whether that be an extreme weather event or whether that be a car accident or your kitchen pipes bursting. Every home is different, and while it may feel like events happen uniformly, they rarely do, so particular issues are common to the property that is being assessed.



So what I would say to people is, you know: make sure that you understand your contract. Engage with your insurer. If you are unhappy with the response you are getting, you can raise a complaint with the insurer, and under the *General Insurance Code of Practice* they are compelled to respond to that complaint.

**Gaëlle BROAD:** Thank you.

**The DEPUTY CHAIR:** Thank you kindly. Dr Ratnam.

**Samantha RATNAM:** Thank you very much. Thank you so much for your evidence today. Just to pick up on the point about betterment funding, could you talk us through how that betterment funding is working in the other states? Is that government top-up or subsidy essentially working at an individual level, or is it across a group of policies? How does it work?

**Kylie MACFARLANE:** Probably better questions for the NRRA and the QRA – but as I understand it those funds are being used for three different things, as I said before: buyback, retrofit and razing. Those state governments or their emergency response divisions, agencies, have assessed the vulnerability of the areas that were impacted and based on those assessments have determined whether a household will be offered buyback, retrofitting or razing. The funding is then provided to those households to do that.

**Samantha RATNAM:** Oh, great.

**Kylie MACFARLANE:** [Zoom dropout] suburb, and there are lots of houses being bought back at the moment and converted to parkland.

**Samantha RATNAM:** Thank you. So is there no interaction then – with, for example, somebody making a claim from their insurer who does like for like, then if that same person is able to apply for some betterment funding, what is the interaction with the insurer? What do they build – which money do they use for what?

**Kylie MACFARLANE:** A number of insurers do have arrangements with Queensland and New South Wales to work together on that, and that will be specific to the agreement that each insurer has with those recovery agencies.

**Samantha RATNAM:** Thank you. And do you know of any more systemic work that is being done to make it easier for the individual customer or the resident to be able to apply for that funding? So rather than go to the government and then go to the insurer and then have to broker between the two, do you know if there is any systematic work being done to make sure it is as easy, as streamlined and as quick a process as possible for the resident?

**Kylie MACFARLANE:** Which is what those agreements are about, so that allows – the customer should always put in their insurance claim, and if they are actually eligible for a grant, then they have the opportunity to apply for it. What I would say slightly differently though on grants eligibility – one of the things we would call on the Victorian government to do is to look at grants eligibility. What we saw in the event last year was that many government agencies were waiting for an insurance claim to be declined before providing individuals with a grant. We do not think that is necessary. If somebody does not have flood cover, they can show a government their policy, which will clearly state that they are not covered for flood, and in that event they should be able to access government grants quickly and easily.

**Samantha RATNAM:** Great. So if I am correct then in understanding, those individual agreements about how to use the betterment funding versus what your insurer can provide are being done at the individual insurer level, not at a systemic level by the council?

**Kylie MACFARLANE:** There are agreements in Queensland and New South Wales between insurers and government, but I do not have the particulars of those agreements with me today.

**Samantha RATNAM:** It is not happening at a council level – okay, great, thank you. Just to go on to planning matters that you raised in your submission, you seemed to indicate support to end development on flood plains. While our planning system seems to have accepted this in principle, in practice there seem to be many exceptions – for example, an apartment building in Kensington was built high enough to not let floodwaters into the car park, yet somehow it did seep in. Do you think we need to tighten the exceptions to no development on flood-prone land?

**Kylie MACFARLANE:** Obviously, national cabinet has looked at this and made the declaration that building on flood plains needs to end, and the Victorian flood plain management system is looking at a 1 per cent AEP, which is great, but we also need to be looking at climate forecasting and understanding the impact of climate on particular events moving forward. We would agree that building on a flood plain needs to end, particularly at that 1 per cent AEP and above, and that government needs to be looking at a catchment view as opposed to a particular LGA view. A river or a dam or a causeway does not know the difference between one local government area and another, yet the rules can be different on one side of the fence versus the other. A catchment view to land use planning is essential, factoring in climate change, albeit we acknowledge that that is complex, and being able to review those plans when events occur so we are learning from the impact of particular events on the land and how, potentially, land use planning policies need to change again into the future. It cannot be a static model.

**Samantha RATNAM:** Great. Thank you so much. That is really helpful. We have had some evidence provided to this committee throughout these hearings about mitigation measures that could somehow allow for that exception – for example, planning permit approval being given subject to mitigation works, that despite development being on a flood plain area, that mitigation work, theoretically, is supposed to minimise that risk. Do you all have a view about sort of the balance between mitigation and risk in flood plain planning?

**Kylie MACFARLANE:** Mitigation is absolutely necessary, so if that is the strategy, then the mitigation needs to happen first. That mitigation needs to be in place and that there is confidence that that mitigation is going to provide protection or at least reduce the exposure of that community to an event. Then you need to couple that with building requirements, and that can be floor heights, building materials et cetera. But the risk reduction is the first piece of the equation. If you really think that you need to build that development on a flood plain because you have assessed the vulnerabilities as being favourable, then you need to make sure that that mitigation occurs before the community is developed.

**Samantha RATNAM:** On that note, have you all got a view about what you talked about in terms of confidence in that mitigation work? We have had, for example, evidence where theoretically the mitigation work should have reduced the risk but in reality it did not. How does the insurance industry provide advice about that confidence level to your, for example, member organisations?

**Kylie MACFARLANE:** Well, quite often we are working with government to understand what they are looking to do and to provide advice where we can on that mitigation, and quite often we are relying on them to give us the information about the mitigation that they are putting in place and the impact of it, so it is a two-way discussion. Certainly the reason it is important to plan for and understand the impacts of mitigation is that we can do mitigation in one place but it could have a flow-on effect in another area, which is why catchment-based planning is so important.

**Samantha RATNAM:** I think I have got 1 minute, so just one more question. The building regulations require dwelling floor heights to be at least 30 centimetres above the one-in-100-year flood line – the 1 per cent AEP. Do you all believe that 30 centimetres is enough?

**Kylie MACFARLANE:** We do not have a position on that. We obviously work with the National Construction Code through the ABCB and the state building ministers to make sure that, you know, there is good code, and we will provide feedback on code. But specifically, I do not have a view on that in particular.

**Samantha RATNAM:** Thank you.

**The DEPUTY CHAIR:** Thank you, Dr Ratnam. Ms Lovell.

**Wendy LOVELL:** Thank you. Thank you for the work that the insurance council has done in my community in going out and doing those community engagements. They have been very helpful. My question is around – you talked about being concerned about protection gaps and the gap that people have between the insurance they can afford and the insurance they have, or underinsurance, and you said you were doing further work on that. I just wondered if you are doing any work on the actual role of insurance companies forcing people out of the insurance market, because what we are seeing is definite examples of price gouging. We have one property in Shepparton that is not in a flood area at all whose insurance prior to the flood was \$2500. They got a bill for \$42,500. When they inquired of their insurance company why, they were told it was flood

insurance. When they were able to argue the point that they were not affected by the floods – they are in an area that has never flooded and will never flood – the insurance bill returned to \$2500.

We have had other examples where people's insurance has gone up by 80 per cent, which is significant. We have had examples of people not being able to get insurance at all. Ms Broad spoke about Kerang – Rochester is again one of those communities where insurance companies were just saying, 'We are not offering insurance in this town.' So what work is the insurance council doing around the insurance companies actually acting responsibly and conscientiously in this situation?

**Kylie MACFARLANE:** This is why having a nationally consistent hazard database is so important. We rely on the data that your state and your local governments provide to us on flood maps. We do not do our own flood mapping. Our members may purchase and procure flood maps from other providers, but the national flood information database is populated by the flood mapping that the local councils and state governments do across Australia, so our information is actually only as good at the baseline as the information that is provided. So it is vital that we are receiving and that states are investing in updated flood mapping on an ongoing basis.

It is also important to remember that insurance is a competitive market. You do not need to stay with the insurer that you had last year this year; insurance is a 12-month contract. It is important that people always shop around, because insurers make different decisions about the risks that they are willing to expose their book to. And so while some insurers may be making decisions to withdraw from a market or price that market in a particular way due to the risk, another insurer may be making a different decision. So shopping around is fundamentally important.

Insurers, at the end of the day, price risk, and they will price that risk based on the information that they have, and they will make decisions about the policies they put in place and where they put those policies in place based on that assessment of risk. So it is fundamentally important that we have uniform public data, that communities are well aware of the risks of the properties that they have purchased before they purchase them and that government and industries – not just the insurance industry – are working together to be able to access that information and be able to advise and make good policy with regard to land-use planning and building codes into the future.

**Wendy LOVELL:** In a couple of those communities that I mentioned, Shepparton and Rochester, there is incredibly accurate flood modelling available. It is available to anybody via the CMA websites. It actually tells you the floor levels of every house and what the impact might be on that house for various scenarios of floods, and it is incredibly accurate. So that information is available, and yet even in those towns we are seeing unconscionable increases in the cost of insurance. And, you know, you said reinsurance has gone up 20 per cent or 30 per cent. When you are talking about insurance going up by \$40,000 or insurance going up by 80 per cent, that is not 20 per cent to 30 per cent, the cost of the reinsurance. So there definitely needs to be a role for someone to be investigating the actual activities of the insurance companies themselves, and I would have thought that would have been a self-regulatory thing that the insurance council would be interested in doing.

**Kylie MACFARLANE:** The insurance council procured the Deloitte review this year to look into insurers' responses to cat 221 last year, and those findings apply across all those flooding events. Insurance is a competitive market; if people are not happy with the quote they are getting on their policy, they can go and speak to other insurers about what they are insuring and what they are looking for and make sure that they are getting a number of quotes before they settle on the insurance that they want. Insurers ultimately are regulated, highly regulated, by APRA and ASIC. They are compelled, under the General Insurance Code of Conduct to behave in a certain way with their customers, and they also have AFCA, the Australian financial complaints tribunal, where individuals can refer their claims complaints, or their complaints more broadly, to in a situation where they do not think they are getting the service that they require. Ultimately our insurers are in a highly regulated industry, and every property is going to be assessed according to its traits and the information that we have. If an individual thinks that an insurer does not have all the information, then providing them that information is fundamentally important.

**Wendy LOVELL:** What has been done with the information that you have had from the community meetings that you have conducted in areas like, for instance, in Rochester, where people were being forced to sign off on or asked to sign off on incomplete scopes of work and sometimes very inaccurate scopes of work. One example is a stove that was to be installed in a toilet area. They have been pushed to take early payouts,

and that was tempting for many of them that just needed to get re-established, but taking that early payout before the scope of works was completed was never going to restore their home. These sorts of stories must have come back to you through those community sessions. What actions have actually been taken?

**Kylie MACFARLANE:** One of the most important things about the community sessions is the ICA's ability to talk to those communities about the claims process, and we spend a lot of time in those community town halls talking about the end-to-end process of the claims review. If I just call on a couple of things; the first is scope of works. Scope of works is not a static document. A scope of works can and will change through the life of a claim, for a range of different reasons: partly because as builders come in and start doing the work, they find additional problems, or the home owner might affect a change in scope of works when they realise something more or additional to their original claim actually needs to be considered. So signing a scope of works is an important part of getting the work started; if a scope of works is not accurate, then the customer should be raising that with their insurer. They are not forced to, and they should not be forced to, sign a scope of works. If they are unhappy with their scope of works and they do not get the response they want from their insurer, they should raise a complaint. I have been through that process before, through the internal dispute resolution process within the insurer, and if they are not happy with the insurer's dispute resolution process and result, they can take that to AFCA.

The claims process has a number of key areas to it. A scope of works is an important document because it does allow work to start, but it is not a static document, and we actually talk about that in our presentations at town halls so that people do not get nervous about signing a scope of works, because quite often people see it as a static document, and it is not.

**Wendy LOVELL:** Thank you.

**The DEPUTY CHAIR:** Okay. Thank you, Ms Lovell. Ms Watt.

**Sheena WATT:** Hi. Ms Macfarlane, thank you for your submission and being with us today for our inquiry. I had a number of questions that speak more to your submission, and I wanted to start with the cat 223 Insurance Catastrophe Declaration that you mentioned in your opening statement. You said that there was an industry working group that was established. Can you talk to me a little bit more about what the role and function and purpose is of this working group and where it fits in broadly to the work of the council with respect to these big changes that are obviously happening in catastrophe declarations?

**Kylie MACFARLANE:** Sure. So the catastrophe declaration is made by the ICA. We stand up, and we have a catastrophe operations working group. When an event is announced, that cat ops working group, as we call it, will start meeting quite regularly, and particularly in the first two to six weeks of an event we might be meeting daily. The representatives on that working group are all representatives of the insurers who are affected by that event. During those weeks we will be talking about the number of claims we are seeing, the information we are getting from government, the information we are getting from customer advocates or from AFCA, any problems that we are seeing at a community level and what we need to be escalating back up to government and to emergency response agencies, and working through the data that we are seeing. Part of the cat ops working group – what we do in the first couple of weeks is they actually start providing data on a daily basis just for that first typically two to three weeks as the event is unfolding, and we then provide that information out to media so that it is publicly available. We meet with government, with regulators, with AFCA and with consumer advocates regularly through both that first period of response and then ongoing through the months after.

**Sheena WATT:** So with that you are saying, particularly in those two- to three-week periods, there is constant communication between the members of the industry working group and government and recovery agencies. Is there any opportunity there to have improvements in terms of the collaboration for future flood events that is worth our consideration?

**Kylie MACFARLANE:** Yes. So we have been working closely with ERV. They have provided us some feedback about the event. We are in the process of collaboratively building a recovery agreement with ERV. The recovery agreement will cover off on things like state-funded clean-up, grants eligibility, situational awareness, data sharing so that when an event occurs, because that recovery agreement is in place, we all know what our respective roles are as that event occurs. Remembering too for insurers, our role is in recovery. It is

not in response, it is just in recovery. ERV have had an agreement with us in the past, and we are refreshing that now and last year gave both sides a very active process to now look at and improve that collaborative agreement going forward.

**Sheena WATT:** You mentioned the data sharing. It is pretty significant, and that has come up a great number of times with many of our previous witnesses. Are there any areas where you can see some improvement on data sharing between ICA, your members and government to improve recovery efforts?

**Kylie MACFARLANE:** As you probably know, there is never enough data.

**Sheena WATT:** No, that is right.

**Kylie MACFARLANE:** So we actively provide our data to government and to emergency –

**Sheena WATT:** Is that a legislated requirement or do you just do that?

**Kylie MACFARLANE:** [Zoom dropout]. So what we do is, as I said, the first kind of two weeks when the event is unfolding, we will get reports from the insurers every day. We will download reports. At the two- to three-week mark we will stop doing that and we will move to a monthly cycle of reporting. That monthly cycle then looks at more granular data. So we will look at how many claims, what the split between motor, home and business is, what is the closure rate, what is the average cost of claims and that will move around each month, but we can start to actually analyse that data as it is coming through. We provide that data to all governments and emergency response agencies. We would provide it to the regulators, to AFCA and the media. So we make it publicly available – it is on our website – and that data gets used by government.

**Sheena WATT:** Yes.

**Kylie MACFARLANE:** We certainly would like data back. So situational data is always very important.

**Sheena WATT:** Okay, good. Thank you for that one. It seems consistent with others. Can I go now to planning arrangements? In your submission there was a particular focus on planning arrangements, which have primarily been on climate risk and coastal flooding. Is there a need to expand the focus to incorporate more urban environments and urban risks? And if so, could you talk to us a little bit about that? Certainly as part of our terms of reference we are considering urban flooding events.

**Kylie MACFARLANE:** Yes. One thing Australia is very good at is developing communities, right? We are a growing population, so we have to house people and that makes planning so important. Planning for urban development, planning for regional development and planning for large infrastructure, highways et cetera is fundamentally important. Understanding how events occur and the impact on any community, quite frankly, whether it is urban or regional, needs to be undertaken and assessed. It is vitally important – and I mentioned this before – that when mitigation investment is proposed it is not just about fixing a problem at Y but we actually understand the impact of that investment on the communities that surround it. Will it change water flow? What mitigation do we need to do further down the line to then protect that community et cetera et cetera? Land soak is fundamentally important – you know, cities are made of concrete, and that takes away land soak. So there are a number of key things for planners to look at. Catchment-based land use planning and hazard management, though, are fundamentally important. I know I have said it a couple of times already, but a flood, a cyclone or a bushfire does not understand local government areas. It is a catchment, so the state needs to be doing catchment-based land use planning and hazard management and then providing LGAs with the results of that and the outcomes with regard to development and urbanisation.

**Sheena WATT:** My last question was about a catchment-based approach to planning, which you have just answered. I think that is it for me, Deputy Chair.

**The DEPUTY CHAIR:** Thank you, Ms Watt. Thank you, Ms Macfarlane. I have a couple of questions. You have referred several times to an August 2023 actuaries report. Would you be in a position to provide a copy of that report to the committee?

**Kylie MACFARLANE:** Of course. It is a publicly available report, but we will provide that within our responses.

**The DEPUTY CHAIR:** Thank you very much. You have talked about presumptive measures and the need for a process around that. Could I get you perhaps to elaborate a little bit on that one and share with us how you think that might work? And at what point in that process does the insurance industry enter? Do you envisage an optimal situation where you are there at the beginning of conversations, or is this something where you come in and want to assess the risk at the end and then price accordingly?

**Kylie MACFARLANE:** So this is about pre-emptive mitigation?

**The DEPUTY CHAIR:** Yes.

**Kylie MACFARLANE:** Yes. We are actively involved in conversations at a federal level and very happy to be actively involved at a state level in conversations around pre-emptive mitigation and mitigation full stop. We worked closely with the New South Wales and Queensland governments on their resilience packages and are keen to do so with any state. It is best when industry is brought in early, particularly for the financial services industry, for general insurers. We are assessing and pricing risk, so ensuring that our perspective is shared early can allow government to make appropriate policy decisions.

We were very pleased when the federal government announced the hazards insurance partnership back in October 2022, which is a partnership between NEMA, the National Emergency Management Agency; the Australian Climate Service; ABS, the Australian Bureau of Statistics; CSIRO; five of our insurers; and the insurance council. Through that partnership we are talking and doing work around developing a national hazard database, which as I mentioned at the outset, is essential to allow the right conversations to be happening at a government, community and industry level. And we are also talking to them and doing work with them around household mitigation. That coupled with the Disaster Ready Fund is a great vehicle to allow mitigation investment dollars to be coming through to the states for particular programs.

**The DEPUTY CHAIR:** So do you actually have a venue or a process at the Victorian level for those dialogues to occur currently?

**Kylie MACFARLANE:** As I said, we actively engage with ERV, and we have been actively engaged in conversations with the Victorian government off the back of cat 223. So yes, I do think that we have the opportunity and the relationship to be able to have those conversations, and we will continue, as I said, working with ERV on collaborating around the recovery agreement. And through our advocacy work and our discussions with the Victorian government, we are very clear on our key messages around land-use planning, building codes and mitigation investment. As I mentioned before, one of those key pillars is pre-emptive mitigation – understanding vulnerability now and investing in the mitigation of that vulnerability before the next event.

**The DEPUTY CHAIR:** Okay. Thank you. You talked about inconsistencies between LGAs with regard to flood plain management and the need for that to be at a catchment level. I think you talked about adjoining LGAs with different approaches, can you give us some examples of that?

**Kylie MACFARLANE:** I probably would have to take that on notice for Victoria specifically. It is a conversation we are having with all states, but ultimately to understand water movement you do actually need to understand the whole catchment, and then you can apply any artificial territories that we place on those catchments, but making sure that across LGAs and at a state level it is actually understood what the water patterns are, that there is forecasting for climate change and that you are able to make more informed decisions at a state level, which then allow the LGAs to make appropriate decisions around their land-use planning and their development decisions.

**The DEPUTY CHAIR:** Okay. All right. Well, if you could provide us with some examples, let us take that on notice. That would be really useful for the committee, I think.

Talking about the flood plain management or the management authorities, can I ask: the committee has heard about, for example, the mid-Maribyrnong flood plain management and the fact that the current modelling is manifestly well wide of the mark. How do you respond as an industry when you know that the principles source of data is corrupted or inadequate? Do you just take a worst case scenario in terms of pricing?

**Kylie MACFARLANE:** Insurers, as I mentioned before, use the national flood information database, which is that database that has been developed over years through the procurement of local government flood mapping or state-based flood mapping, but insurers also use other assessment tools. They procure other flood maps that are developed by independent third parties, and they have perils teams who also consume a lot of information around perils and around the movement of extreme weather and how it acts, and they take all of that data to assess risk. So while the end fit or those local government flood maps are vitally important as a baseline, insurers are adding to that baseline through their own information and the information they procure from other vendors.

**The DEPUTY CHAIR:** Okay. Thank you. This one might be a little bit too specific. The committee has heard evidence about Melbourne Water at Maribyrnong, where we have got roughly 600 houses that were inundated, being required to execute section 173 agreements that indemnify Melbourne Water against claim, and it has been suggested that that would result in problems with either getting insurance or the price of that insurance. Does that sound consistent with your understanding of how the industry would respond to those sorts of indemnities to the catchment management authority?

**Kylie MACFARLANE:** I would have to take that question on notice. I am not aware of that particular scenario that you have discussed, and I would prefer to give a more informed answer through our responses.

**The DEPUTY CHAIR:** Okay. That would be fantastic. And that is probably pretty timely; we are at 12:45. Okay, Ms Macfarlane, thank you very much. It is really appreciated you joining us today, and we appreciate your contribution. Before I finish up, can I just note that you will receive a copy of the transcript for review about a week before it is published on the website. And on behalf of the committee, thank you for joining us today. We will take a break now and we will resume at 1:30. Thank you very much.

**Witness withdrew.**