

## **Northern Australia Insurance Premiums Taskforce interim report – Focus Questions**

Cyclone Testing Station's response to Taskforce's focus questions:

### **16. What can be done to encourage greater efforts to mitigate the risk of damage from cyclones? Are there impediments to insurance premiums being responsive to mitigation action by property owners?**

Premium reductions without risk reduction will not be commercially acceptable in the longer-term. In order to sustainably reduce premiums, risk reduction must be undertaken and this will require mitigation. There are complexities in having insurance premiums being responsive to property owner mitigation actions, however that should not be taken as an impediment.

Mitigation actions can be retrospective (upgrading) or proactive (design and construction to higher levels than the minimum required). Both require a concerted education effort to ensure that mitigation actions are effective and address all factors that may influence vulnerability (e.g. minimising weak links in the load path).

Retrospective mitigation actions could include upgrading a garage door to the latest wind load standards, tie-downs installed on garden sheds, installing wind protection screens, or having a cyclone preparedness plan in place such that yard is cleaned, trees pruned and shade cloths taken down prior to event. These actions will reduce damage to those areas of the property. A validated insurance premium pricing (risk pricing) methodology could be implemented such that the Insurer's pricing could reflect individual and cumulative implementation of mitigation measures. Currently there appears to be limited information that the insurer applied to the assessment of risk and loss to an individual property. Better use of existing information along with data on mitigations measures will greatly enhance Insurer's knowledge of portfolio.

Current Codes and Standards present the minimal level for compliant construction. Construction to a higher standard than the minimum requirement will deliver a higher level of performance in any wind event and a consequent reduction in risk of damage, but is not currently rewarded by premium reduction. Risk mitigation relies largely on providing knowledge and incentives for home-owners to act. Building regulations have limited ability to drive action, as they mainly only apply to new houses.

Wind driven rain water ingress damage has been demonstrated from CTS damage surveys and reports based on insurer data, to be a considerable driver of loss in terms of interior damage to housing and strata properties. It is also a cause of distress and anxiety during wind storms as owners are trying to stop the water damage as opposed to sheltering away from windows. Research funding is required to determine cost effective measures for mitigating water entry for existing construction and for deriving industry standards and testing for future building systems.

The Insurer will require a means for customer to inform insurer of implemented measures. This could be via a web portal, smart phone app, phone call to sales representative, or via a broker.

For large scale mitigation measures (resulting in substantial premium reduction) such as a re-roof structural upgrade, an electronic lodgement (scan) or posting a copy of the Building Certifiers inspection certificate to the Insurer may be a requirement for validation to ensure that the claimed measures are effective. It would be envisaged that this is the owners responsibility to retain (physically or electronically) the inspection record/certificate. Discussions are needed with the QBCC to develop a simple inspection form for registered certifiers to use (similar to forms required for inspections of new construction work).

An offshoot of this is engaging with home owners, real estate agents and property appraisers should be the increase in market value for a home that has mitigation measures in place over a similar home that doesn't.

A sleeper in this argument is that there is no easily accessible publicly available aesthetically appropriate upgrade measures that can be used as a deemed-to-satisfy solution and can be used as a reference for comparing the effectiveness of alternative solutions. This will require research along the lines (but in a faster timeline) that is currently in the scope of the *Improving the resilience of existing housing to severe wind events* BNHCRC research program.)

Education of home-owners via videos, seminars and webinars will help to identify those parts of a house that are most at risk. These forums can also identify solutions to mitigate risk and improve safety for occupants but more research is needed to validate additional solutions.

Beyond education, governments and insurers could both play a role in supporting or encouraging risk mitigation actions. Changes to government legislation could help in a number of areas, particularly in reducing the impact of items outside the main house, such as fences, trees or other structures on the property such as carports and garden sheds.

Insurers could improve their own risk profile by either subsidising risk mitigation actions or by offering discounts on premiums in response to actions taken.

The poor cost-benefit ratios are an impediment to performing mitigation work that needs to be addressed. If home owners simply look at the cost of doing the work and the premium reduction that they could get, they will never do it. A sweetener – e.g. government funding or zero interest loans for mitigation similar to solar power incentives in addition to premium reductions may be required to start a cultural shift.

These actions would require some clear process to identify key risk drivers that warrant attention and a process to identify that action had been taken. This could be achieved as an initiative supported by one insurer but would perhaps be better done as a collaborative effort across a number of insurers or the industry at large. It is not known whether this would be widely supported. An independent assessment process, as covered in Q17, could also be a useful part of this process.

**17. What are the advantages and disadvantages of establishing an independent assessment process to determine the vulnerability of a house to cyclone damage and to verify what mitigation work has been undertaken? How could such a process be established?**

An independent assessment could be the property of the home owner. It could be used to shop between competing Insurers. The awareness campaign around the process and reasons for assessment will highlight the importance in a well prepared home.

Advantages of such a scheme include:

- An assessment by a party independent of the fixing of premiums to ensure that home owners feel that the assessment is objective.
- Insurers are not relying on home-owners for presentation of facts about the buildings and its risks. This will give the assessment higher credibility than self-assessment.
- Appropriate training and certification for assessors will mean that they have skills required to make the complex risk assessments.

Provided a formal accreditation process is in place (e.g. AIBS) for assessors, a competitive pricing for assessments for different styles of construction and inspection levels will evolve. A component of this may be some proportion of self-assessment via an online form such that the home owner's response to the questions will point to the need or not for a formal assessment (this could be arrived at from answers to age of house, location on a hill, roof material, etc suggesting a formal assessment of roof structure).

Assessment of the resilience (or vulnerability) of a house to cyclone damage could be a two-part process. In the first instance home-owners might conduct a self-assessment in response to some guidelines and simple questions. This could be a simple online process based mainly on ticking the most appropriate box to perhaps 5 or 6 questions. This might then flag the need for any independent assessment, which would be the second part of the process. This assessment could be funded by the government and/or insurers, as both can benefit from a more resilient community. However, the assessment should ideally be the property of the home-owner. Without this, there may be a reluctance to participate. Any assessment would not need to be repeated annually but perhaps every 5-10 years where any subsequent assessment was indicated.

A home owner could use the assessment to guide any necessary action (if any required) and use the assessment along with documentation on actions to shop between competing Insurers. The awareness campaign around the process and reasons for assessment would highlight the importance in a well prepared home.

In terms of how an assessment process could be established, the Building Asset Services of the Queensland Dept of Housing and Public Works has recently submitted a proposal for the independent assessment process for Strata title properties. Existing processes for new buildings are also well established as Building certifiers are already a profession that conducts regulated surveys and inspections for new construction along with requested assessments for home buyers of existing properties. Published guidelines and an online training portal along with a formal reporting process via the QBCC would be required however to ensure consistency between inspectors as well as surety for the Insurer.

**18. What are the advantages and disadvantages of (a) establishing a rating system for building vulnerability to cyclone damage that could be publicly disclosed at the time of sale, and (b) establishing a centralised database on building information that could be accessed by insurers?**

The advantages of a public rating system include:

- Home-owners of rated buildings have an understanding of the resilience of their property that will enable them to make an informed decision about whether or not to seek shelter in the building.

- Rating homes for cyclone resilience/vulnerability is an opportunity to educate homeowners about the potential risks of damage from cyclones, some 'soft' strategies to mitigate risk (preparedness) and retrofitting options.
- Rating systems give a tangible measure of the relative risk of a given property with respect to a benchmark. Such systems (eg NAPLAN) encourage people not to be left lower than the benchmark.
- Because of the complexity of assessment of risk, a prospective buyer cannot make sufficient observations to determine the level of risk in a particular property. An independent vulnerability rating will inform prospective buyers of likely safety risks and relative insurance premiums.
- Encouragement to build or upgrade structures with higher resilience will improve community resilience and speed recovery after an event. The whole community can be affected by loss of accommodation during a recovery operation.
- Incentives may drive up resilience of properties in a community (one at a time) because in trying to sell, people will be seeking a competitive advantage.

Some disadvantages of a public rating system:

- some houses will have a poor rating which may impact on sale price or increase their insurance premiums – conversely this may prove motivation for undertaking mitigation work. Interest free loans for some situations may alleviate the possible high costs of mitigation for some homes.
- There will need to be rigorous auditing of assessors to ensure they are applying the rating system consistently;
- Assessors will need comprehensive training and regularly undertake professional development;

For the question 18(b), is the interpretation of a database of building assessments or a database of guides and best practice information?

If it is a database of building assessments, why is there a need for a centralised database? Would the approach be better served by engaging with the community for them to retain the information on their property so that they can supply to the Insurer of their choice? The need for the self-reliance on keeping the house records relevant (or at least at time of annual renewal) may be a way of engaging with the community on issues of maintenance, preparation etc. (If it is about an online guide to building resilience and features that are OK and those that are not, then the database is closer to a best practice guide and it is a really good idea.)