Supplementary submission to the National Disaster Insurance Review

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The following additional points have presented themselves, following the writer's involvement in recent floods in coastal NSW.

1 Floods need not be disastrous

Disasters might be defined along the lines of 'a sudden, unexpected event resulting in widespread losses'. Figure 1 taken at the village of Kompong Pluk, on the shores of Lake Tonle Sap in Cambodia, illustrates how floods need not be disastrous. This lake rises 10-12m each year. People live there quite happily, and few would advocate moving them out, as these people are adapted to the floods and their losses from the annual floods are small. For them, flooding is not a disaster. Likewise, many people living in, say, North Lismore (not behind the levee) are well used to floods and the losses are typically small. One former resident of that suburb once told me that she wouldn't mind moving back.

Figure 1 Kompong Pluk, on the shore of Tonle Sap Lake, Cambodia, which seasonally rises by 10m to 12m in the monsoon season

Two flood claims recently investigated by the writer reinforce this point. Both claimants live in houses overlooking a river. Although the claimants had incurred losses during floods, the long-term benefits of being able to look out over water every day outweighed the transient losses. Indeed, because they were living in 2-storey houses, they were well able to prepare for the next flood, and ensure their losses

would be small. For them, a well-designed flood insurance policy that incorporated incentives to reduce losses should be feasible.

Bishop et al (1996: 122) note that flooding of an urban area becomes inversely less important, the more a society develops economically. Thus, few would advocate moving people out of London, even though it is flood-prone. While the benefits of being in London normally outweigh the potential losses, it will be important to prepare for when the Thames barriers eventually do overtop, so that the losses will not be large and disastrous. Although one needs to consider the balance between the benefits of inhabiting the floodplain and the costs of flooding, an economic evaluation may over-estimate losses if it does not distinguish between floods that are disastrous and ones that are not. In other words, strategies to enhance the capacity of a community to cope with the social effects of flooding can result in reduced insurance premiums.

2 De-politicising floods

It is of note that the National Construction Code (ABCB 2011) deals with the issue of the risk of fire extensively, but it does not deal with flood risk at all, even though it is arguably no less costly to the community. While there are still political controversies concerning bushfires, urban fires rarely get much public attention. There is much that can be done when designing a house to make it and its contents resistant to flood damage. Were flood resistance incorporated into the Code, the losses from floods could be reduced significantly, and the reliance on the political process for effective flood-risk management should be lessened. In turn, this should help reduce payouts for floods. There would probably need to be a suite of Standards to underpin such amendments to the Code, but this should not be too burdensome, since most of the practices are well established.

Another potential benefit of having flood insurance would be that checks to ensure the insureds were maintaining their preparedness for flooding could be incorporated into the normal process of renewing the insurance policy.

3 Flood rating to impede the almost inexorable increase of unsustainable flood risk

Instances of unsustainable flood-risk management are those developments in north-western Sydney that will be affected by the next very Large Flood in the Hawkesbury River, which can rise as much as 20m above its usual level. Many people in the way of such a flood won't be able to evacuate in time. This has been pointed out to the State Government, yet the developments have been allowed to continue.

The only entity that might have had the capacity to impede this unsustainable development could have been the insurance industry. If there were a public flood risk rating analogous to the financial ratings we hear much about today, this may give a state government pause, since a threat of high premiums for affected householders would help to raise the political profile and communal awareness of the risk. Moreover, if there is to be a state government contribution to the pool for high-risk flood insurance, this should help emphasise to the decision-makers the need to pay attention to developments that increase the government’s liability for the risks.

4 The wasteful effort of trying to refuse claims for flood losses

As a result of rulings by the Insurance Enquiries and Complaints Tribunal (IEC), all claims that are to be considered for refusal because of flood need to be assessed by a hydrologist. Such an exercise can easily cost many thousands of dollars for a single house: five thousand dollars need not be uncommon for a minimal assessment. An investigation entailing a complete and rigorous report could cost double this. While this can be highly profitable for water engineers such as the writer, it is hardly an economically efficient use of scarce specialised manpower resources.

Against this, anecdotal evidence indicates that this cost acts to lessen the number of claims refused because of flood, since it might be not much more costly to pay the claim, particularly if there is an appreciable probability that the assessment results in a payment.

Conclusions

There can be significant benefits from occupying the floodplain, particularly if the community can adapt to living with the floods. This can be a cost-effective strategy for mitigating flood losses.

As much as possible, flood-mitigation strategies should be taken out of the political process, by incorporating them into building codes, standards and insurance processes.

Public flood-risk ratings should help to impede unsustainable developments on the floodplain, particularly if the links to premiums and state government contributions are made clear.

Decisions by the IEC may have indirectly served to increase insurers; payouts for floods.

References

ABCB (2011). National Construction Code. Canberra, Australian Building Codes Board.

Bishop, P., Hein, D. and Godley, D. 1996. Was medieval Sawankhalok like modern Bangkok, flooded every few years but an economic powerhouse nonetheless? *Asian Perspectives* 35 (2): 119-53.