Submission regarding the impact on rural pensioners and self-funded retirees of any mandatory flood insurance charge on property insurance

I understand that that the NDIR may be considering a compulsory flood insurance component on home insurance policies.

This would be a most retrograde step which would, in effect, force the great majority of property holders – whose properties are sensibly sited – to cross-subsidise a relatively small minority of householders who have made a choice to gamble on living in flood-prone situations.

For rural retirees, any further cost pressure on insurance costs from a compulsory flood component will add to other unavoidable premium pressures that are already in train. Such increases stem, we are told, from a string of disasters in Australia (bushfires, cyclones, storms, floods) and the consequent increased costs to insurers of reinsurance premiums. Additional cost pressures stem from a lack of competition (many insurers want only low risk policies and will not cover rural property, for instance) and poor investment decisions by insurers caught up in the recent global financial crisis (GFC).

Future mooted premium increases are on top of a significant premium hike that has already occurred over recent years. My own full replacement home cover (with AAMI - Suncorp) has increased from $240 in 2007 to $465 in 2011. The annual percentage increases in my own case (which I expect are typical for rural Victoria) were

2008	10%	
2009	11%	(following GFC?)
2010	36%	(following Victorian bushfires?)
2011	17%	(no explanation)

These increases speak for themselves and are made worse by the absurd tax regime on house insurance that puts a percentage based compulsory fire service levy on these increases and then applies to the final premium a “tax on a tax” – the GST, amplifying these punishing increases. I have found that shopping around for cheaper premiums isn’t the answer in a market where major insurers (e.g. Allianz, QBE) are refusing to even offer cover for certain types of rural property or in particular rural areas, leaving just a few who are able to charge what the market will bear. This places a real cost burden on the rural self-funded retiree, whose income and superannuation reserves have already been decimated by both the GFC and by price hikes on a range of utility bills, local govt. taxes etc.

Global warming and predicted increases in extreme weather events influence not only flood events. Then, might it not be argued that if a compulsory flood cross-subsidy levied on all premiums is justified on equity grounds, then why not an equivalent cross-subsidy on premiums inflated by equally devastating bushfires or cyclones stemming from the same underlying causes?

A compulsory flood cover charge could have many unexpected adverse consequences, such as:

- encouraging poor planning and construction in flood prone areas;
- building design that does not account for possible flooding;
- property owners and local and state government neglecting undertaking proper design / maintenance of guttering and stormwater drains (to save money);
- discouraging urgent reform of building codes in relation to climate change driven issues;
- diminishing the impetus to much needed improvements in public flood mitigation works;
- increasing lack of transparency in insurance pricing (companies will lay blame for premium hikes on any mandatory flood component);
- causing some poor or distressed home-owners (including pensioners) to gamble on having no cover as insurance becomes less and less affordable;
- politicising this important planning issue (a "great big new tax" on insurance, etc.)

Clearly, government (that is, the community at large) cannot always be expected to wear the continuing high cost of natural disasters. There must be a level of acceptance of personal responsibility by property owners when faced with adverse weather events that are entirely predictable and tipped to become more severe and more frequent.

The Insurance Council of Australia's 10 Point Plan is constructive but I would like to see legislated scrutiny of the insurance industry by the ACCC (or a dedicated government body) in relation to premium levels and affordability. If insurers had to apply to a regulator and fully justify any desired premium increases (as health insurers must do) then that could be a big step forward in transparency and fairness, provided the regulator does not become just another toothless tiger. After all, insurance is an essential service which, when it becomes unaffordable for some, places an unfair burden on government and the community generally.

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