

An aerial photograph showing a vast area of flooding. A long, straight road lined with trees runs diagonally from the bottom right towards the top right. The surrounding fields and areas are submerged in blue water, with many trees standing isolated in the floodwater. In the far distance, a residential area with houses and more trees is visible under a clear sky.

# CHOICE

## Weathering the Storm: Insurance in a changing climate

### AUGUST 2023

In partnership  
with:



ABOUT US

CHOICE is the leading consumer advocacy group in Australia. CHOICE is independent, not-for-profit and member-funded. Our mission is simple: we work for fair, just and safe markets that meet the needs of Australian consumers. We do that through our independent testing, advocacy and journalism.

To find out more about CHOICE's work visit [www.choice.com.au](http://www.choice.com.au)

ABOUT OUR COMMISSIONING PARTNERS

CHOICE engaged the Climate Council, NSW Tenants Union, Financial Rights Legal Centre and Financial Counselling Australia for their expertise and guidance throughout the project. Representatives from these organisations assisted with policy advice and the recruitment of interview participants. We are very grateful for the time and thought that they put into this report.



The Climate Council is a community funded and independent organisation that provides evidence,

expert advice and advocates for solutions to the climate challenge all Australians face. The Climate Council is a courageous catalyst propelling Australia toward bold, effective action to have our emissions plummet during the 2020s and hit net zero by 2035.



Financial Counselling Australia (FCA) is the national voice for the financial counselling profession in Australia. We are a not-for-profit organisation

which provides resources and support for financial counsellors and works to raise awareness about the availability and value of financial counselling. FCA advocates for a fairer marketplace for consumers and aims to improve hardship processes for people in financial difficulty. We coordinate the National Debt Helpline and manage the Small Business Debt Helpline. Our vision is for an Australia with fewer people in financial hardship.



Financial Rights is a community legal centre that specialises in

helping consumers understand and enforce their financial rights, especially low income and otherwise marginalised or vulnerable consumers. We provide free and independent financial counselling, legal advice and representation to individuals about a broad range of financial issues. Financial Rights operates the National Debt Helpline, which helps NSW consumers experiencing financial difficulties. We also operate the Insurance Law Service which provides advice nationally to consumers about insurance claims and debts to insurance companies, and the Mob Strong Debt Help services which assist Aboriginal and Torres Strait Islander Peoples with credit, debt and insurance matters.



Since 1976 the Tenants' Union of NSW has been the peak body

representing the interests of tenants and other renters in New South Wales. It is a Community Legal Centre specialising in residential tenancy law and policy, and the main resourcing body for the state-wide network of Tenants Advice and Advocacy Services (TAASs) in New South Wales. The Tenants' Union is recognised for its long-standing expertise in renting law, policy and practice and is a non-partisan membership-based co-operative and charity.

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This project is supported by Ecstra Foundation. Ecstra is an independent charitable organisation committed to building the financial wellbeing of all Australians within a fair financial system. We work with organisations across government, community, business, consumer groups, education and research experts.

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*This report was authored on Gadigal land. CHOICE acknowledge the Gadigal people, the traditional custodians of this land on which we work, and pay our respects to the First Nations people of this country. CHOICE supports the First Nations people's Uluru Statement from the Heart.*

## INTRODUCTION

Extreme weather events are worsening across Australia. Since the Black Summer bushfires in 2019-20, there have been 11 declared insurance catastrophes.<sup>1</sup> Since January 2020 insurers have received almost 788,000 claims related to floods and storms that have been declared catastrophes or significant events. As the climate warms, the risk of extreme weather events will continue to increase, likely bringing disasters at a scale and severity for which we are not currently prepared.

Home and contents insurance is essential in helping people and communities recover and rebuild after these types of events. Insurance ideally provides temporary accommodation for people whose homes have been damaged or destroyed, allows them to replace valued possessions and helps them to rebuild their homes and lives.

Unfortunately, however, these benefits of insurance are increasingly out of reach of many people. Climate change is causing premiums to rise, forcing many people to reduce their cover or opt out of insurance altogether. Even where people can afford insurance, inconsistent and confusing policy terms often mean that when they go to make a claim, they find they aren't covered. And rising costs of rebuilding mean that many people find they haven't been adequately insured.

The impacts of being uninsured or underinsured aren't just financial — they also have human impacts. Our research finds that many people who have been through extreme weather events are experiencing significant and ongoing emotional harm, with many reporting ongoing trauma and anxiety, relationship breakdowns, exhaustion and suicidal ideation.

This report, commissioned by CHOICE, Climate Council, Financial Rights Legal Centre, Financial Counselling Australia and the Tenants Union of NSW explores the role of the insurance market in responding to these complex issues. It is informed by a nationwide survey of people that have home insurance, as well as interviews with homeowners and people who rent in communities affected by extreme weather events.

Our research identifies five key consumer problems that are limiting the affordability and accessibility of home and contents insurance.

### Consumer problems with home and contents insurance:

- 1. Complex product design:** Home and contents insurance policies are complex and vary across insurers, with inconsistent and incomparable definitions for standard terms, deviations from standard cover and opaque pricing. This can contribute to accidental underinsurance for policyholders. Policies need to be simpler and fairer for people facing the threat of extreme weather.
- 2. Unaffordable premiums:** Insurance premiums are becoming increasingly unaffordable for people living in disaster-prone areas. Many households on low incomes are being priced out of the insurance market entirely. This contributes to a disaster-induced poverty cycle.
- 3. Inaccessible information on natural hazard risk:** People are unable to find out what level of extreme weather risk their homes face now and in the future. Inconsistent and unavailable information is preventing people from making empowered decisions about how to protect themselves and their home.
- 4. Mitigation measures are not being considered:** Many people are not being offered lower premiums if they take mitigation measures which make their home more resilient. Insurers should provide information in a clear and accessible way on measures people can take to lower their risk.
- 5. Dangerously exposed housing needs solutions beyond insurance:** Regions of Australia are becoming increasingly uninsurable and unsafe to live. Communities and homes on the front line of disaster are likely to require solutions beyond insurance, including relocation.

These problems aren't going away. They'll get worse before they can get better. And fixing them will require serious and sustained attention by governments and the insurance industry, to ensure that insurance can continue to play a role in assisting people to recover and rebuild after extreme weather events.

## The human impact of extreme weather events



*"My tolerance has gone after 3 floods, so has my marriage - it exacerbates what's underlying [including my] kids' mental health — we needed to move to give them stability.*

*I'd never buy in a flood prone area again — when you go through it, it's traumatic. It takes a mental toll. In my workplace there are farmer suicides.*

*Over time we have to sell it, divorce requires it." Female, homeowner, insured, Windsor NSW*



*"If I didn't get the help that I did and I wasn't as determined as I was, it would have come close to breaking the family... It's a huge burden to carry. [Fortunately] the kids did not see our stress. A lot of kids at the school become anxious, if a storm is approaching they ask, 'Is there hail?'. We are all on edge every time a storm approaches. We now always check BOM for storms." Male, homeowner, insured, Brisbane QLD*



*"We live with PTSD - if we smell smoke we're on the defensive. The kids with what they have been through at that age, all have anxiety." Female, homeowner, insured, Lake Kauai NSW*



*"The house value has gone down massively - I'm stuck. I don't have a house that's saleable. [Home and contents insurance] cost me \$9,000 this year including flood insurance, I used some of the pay out for it but I'm not sure if I can afford it next year." Mother & son, homeowner, insured, Hawkesbury river NSW,*

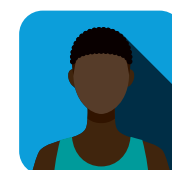


*"[We lost] \$117,000 in the flood. The first few days after the flood I had a breakdown, I got medical help. Have been living in our caravan for four months.*

*Living in a caravan, [with] ongoing delays, it's stressful and wearing us out. I often spend three hours or more on hold — it does your head in - I know they're busy, but I don't get a call back. When I go back to the house I go to water the garden and used to look through the window, but not much now. I think, "my god is this my home?" Female, homeowner, insured, Rochester VIC*



*My daughter has anxiety, every time it rains, [she asks] "is it going to flood?", every time she packs her things to go to her other parent's she has an outburst of emotion about what to bring, [she is] very hard on herself. I need a sense of place and safety — I don't necessarily feel that way." Mother & daughter, homeowner, uninsured, Lismore NSW*



*"[With] the smell and mould [caused by storm damage], I wondered how it would affect my son's lungs — he's a chronic asthmatic. The bathroom was an area my son constantly complained about - it stinks, I could not have any children guests who bathed - no bath. We told the agent a thousand times — but it was not until I moved out that they fixed it." Mother & Son, tenant, insured, Brisbane*

National data on consumer experiences of home and contents insurance

Premium hikes

In May 2023, CHOICE conducted a nation wide representative survey of insurance policyholders.<sup>2</sup> People across Australia are facing rising insurance premiums, which for many, is exacerbating cost of living pressures.

In a recent survey of home and contents insurance policyholders, nearly nine out of ten (87%) said their premiums had gone up with their most recent renewal notice.

For two out of three policyholders (67%), the premium increase was higher than expected. For nearly a third (28%) the increase was a lot.

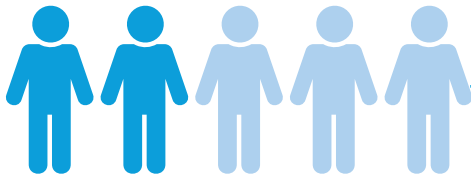
Two out of five of our survey respondents (39%) said they were not given any explanation for their premium increase.

Four out of five respondents said they were not aware of any increased risks to their homes from crime or natural disasters.



Impact of extreme weather events

In June 2023, CHOICE conducted a nationally representative survey of home and contents insurance policyholders.<sup>3</sup>



Two in five (39%) policyholders reported that their home had been impacted by an extreme weather event in the past five years.



19%

had been impacted by flooding or heavy rain



13%

had been impacted by hail



10%

had been impacted by extreme wind



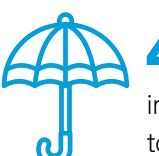
3%

had been impacted by cyclones



7%

had been impacted by bushfires



44%

of policyholders would consider investing in home safety measures to lower the cost of their premium.



78%

of policyholders are confident their insurance covers the cost of rebuilding their home.



However, less than half (46%) of policyholders have ever used a product disclosure statement to understand what they are covered for.

In the past three years, 39% of policyholders have changed their policy or switched providers to reduce the cost of their premiums.



15%

switched insurance providers to reduce the cost of premiums



14%

increased excess payable in event of a claim



11%

reduced their sum insured



5%

removed flood cover



49%

of renters with insurance policies have been affected by an extreme weather event, compared with 36% of homeowners with insurance.

Key recommendations

Make home and contents insurance simpler and fairer

- 1. Legislate standard definitions**  
The Federal Government should legislate standard definitions for a broad range of common terms and conditions in home and contents insurance contracts. This should include terms like maintenance, wear and tear, and key natural hazard events.
- 2. Insurers be required to proactively warn consumers about underinsurance**  
The Federal Government should legislate that insurance companies be required to proactively warn consumers when they suspect policyholders are likely underinsured.
- 3. Adopt a consistent approach to debris removal**  
The insurance industry should adopt a consistent approach to the treatment of debris removal under ‘sum insured’ policies.
- 4. Require insurers to disclose the price of natural hazard risks**  
The Federal Government should require insurers to identify the component of an insurance premium that is based on natural hazard risk for new and renewing home and contents policies.

- 5. Landlord insurance policies should include temporary accommodation for people who rent**  
Insurance companies should include cover for temporary accommodation for tenants in landlord insurance policies when their home is uninhabitable due to an insured event.

Address unaffordable insurance premiums in disaster-prone areas

- 6. Subsidise insurance in areas where it is unaffordable**  
The Federal Government should trial subsidies for home insurance in communities where insurance is unaffordable for most people and particularly for people on low incomes.
- 7. Microfinance insurance product trials**  
Governments should expand funding for trials of microfinance insurance products to provide access to insurance for people on lower incomes.
- 8. Investigate affordability**  
The Federal Government should conduct an independent review of the current and future affordability of home insurance, particularly for households on lower incomes in extreme weather prone areas.

Improve access to hazard risk information

- 9. Build a single source of information on risk to properties**  
Governments should work together to develop a Hazard Risk Database that provides easily understood, publicly available information on current and future climate risks to individual properties. This Database should include data on the risk of floods, cyclones, bushfires and coastal erosion.

Lower premiums by reducing risks

- 10. Ensure that people are rewarded for taking steps to mitigate risks to their properties**  
Insurers should be required to consider relevant property-level mitigation measures in any new or renewing insurance policy, and to demonstrate how those measures have been reasonably reflected in the proposed premium. Governments and insurers should provide advice on mitigation measures that people could take and provide free assessments for people who have undertaken mitigation on their homes.
- 11. New obligations for rented homes to be more resilient**  
State and territory governments should amend residential tenancy laws to require landlords to take reasonable steps to make rented homes resilient to climate risks.

- 12. Allocate financial assistance for mitigation measures**  
Governments should allocate sufficient funding to assist property owners on low incomes and social housing providers in disaster-prone regions to undertake approved, cost-effective property-level mitigation measures.

Help people to leave dangerously exposed housing

- 13. Plan for relocation of communities at high risk**  
National Cabinet should agree on a clear and consistent approach to supporting relocation of communities that face a high risk of natural disasters.
- 14. Fund community engagement**  
Governments should provide funding for dangerously exposed communities to undertake consultations about ways to mitigate future risk, including the possibility of relocation.



Make home and contents insurance simpler and fairer



*"They make it so impossible - three pages of tiny print in language you don't understand – it's the insurance company's responsibility to communicate clearly - most people don't read it - where is the transparency from their end?"*

**Female, uninsured, homeowner, flood in Northern NSW**



*"I definitely read the fine print, but still find it confusing whether to claim [it] as storm or flood ... Before I took [the] initial policy in 2011 I read the PDF to make*

*certain we were covered for flood - I find it difficult to work out what's building and contents."* **Husband & wife, insured, homeowners, flood in NSW**



*"I definitely read the fine print, but they still catch you out. Over the years, it's become a bit simpler to understand the policy, but areas like fences, shade cloth, tools, are vague. I'm the person who rings to confirm what's in the policy. Insurance companies do not like to put things in writing."* **Female, insured, homeowner, cyclone in WA**



*"I glance at the policy - I don't read it in detail, I have a life. If they were in plain English I might read it but they are not and I don't have the patience for it."*

**Female, insured, homeowner, cyclone in QLD**



*"I don't read the fine print; I probably never have. When you buy an insurance policy you look at the cost and base the decision as to whether you can afford to*

*add onto it or not."* **Female, insured, homeowner, flood in Rochester VIC**



*"I don't read any fine print; I don't know much. I get my knowledge from talking to them on the phone – I tell them what I need it to cover."* **Female, insured, homeowner, hailstorm in QLD**

Home and contents insurance policies should be clear, simple, and offer a baseline level of protection to consumers. However, many policies are complex, with lengthy terms and conditions that vary significantly across insurers, making it extremely difficult for consumers to understand policies, let alone compare the policies of different insurers.

This complexity leads to many people being underinsured, without knowing or intending it. Unintentional underinsurance occurs when an insurance policy fails to deliver the level or type of protection that a policyholder expects. It leaves many people across Australia financially vulnerable when extreme weather occurs. Policymakers need to make insurance policies fairer and simpler for people to prevent unintentional underinsurance.

Key fact

Analysis conducted by the Financial Rights Legal centre identified that 18.3% of their clients affected by bushfires were underinsured. Underinsurance was the most common issue raised by the Centre's bushfire affected clients. Debris removal was also a key concern for 10.6% of clients affected by bushfires.<sup>4</sup>

Reforms to help consumers avoid unintentional underinsurance

Standard definitions for home and contents insurance policies

Insurance policies have considerable variation in terms and conditions, including inclusions and exclusions. Consumers need simple and standardised definitions to be able to meaningfully compare home and contents insurance products and understand what the policy they choose covers.

Following a series of floods that particularly affected Queensland in 2010 and 2011, many people found that they were not insured for events that destroyed their home as a result of inconsistent approaches to the definition of flood. In 2012, in response to this problem, the Federal Government introduced a standard definition of flood. This reduced confusion about flood cover but has allowed insurers to adopt an inconsistent approach to many other terms - including terms that define damage that may be associated with a flood, such as damage from storm water and runoff.

In October 2022, the Federal Government announced that it will develop standard definitions for certain natural hazards in insurance contracts and that it would review the standard cover regime to improve consumer understanding of insurance products.<sup>5</sup>

Standard definitions for a broad range of terms will assist in the comparability of insurance products. Terms that would benefit from a standardised definition include:

- maintenance
- wear and tear
- bushfire and smoke damage
- rainwater/stormwater and runoff
- tidal surge/acts of the sea
- malicious damage
- temporary accommodation

Stakeholders interviewed for this report noted that complex and diverse policy terms and definitions can contribute to unintentional underinsurance.



Multiple stakeholders noted NRMA's decision to bundle exclusion of flood cover with exclusions for rainwater run-off and storm surge cover. This meant that NRMA customers who elected to opt out of flood cover also lost cover for rainwater runoff and storm surge but many policyholders were not aware of this until they came to make a claim. Stakeholders suggested that if NRMA took the same approach of other insurers, who include cover for rainwater runoff and storm surge for people who have opted out of flood cover, many policyholders in areas affected by major floods may have been eligible for some benefit. NRMA's approach appears to be inconsistent with the intention of the standard definition of flood, which was to create a consistent approach across the industry to flood-related damage.

The another example of a common policy term that needs a more adequate definition is temporary accommodation. Home and contents policies typically include cover for temporary accommodation where the insured property is uninhabitable for up to 12 months but recent disasters have highlighted that this can be inadequate, with temporary accommodation cover running out before policyholders have had a chance to rebuild. Legal Aid NSW said:

*“Twelve months temporary accommodation coverage is no longer fit for purpose in a disaster-prone world where finalising claims can take considerably longer than it used to.”*

A standard and fair definition of temporary accommodation would ensure that people are less likely to face homelessness or the risk of returning to a damaged home.

#### The standard cover regime needs to be updated

The standard cover regime for home and contents insurance sets out a baseline level of cover but insurers are not required to follow it.



Insurers can deviate from the standard cover, if they *‘clearly informed the insured in writing’* or *‘the insured knew, or a reasonable person in the circumstances could be expected to have known, that the contract provided less than the standard cover or no cover’*.<sup>6</sup> Insurers often communicate a deviation from the standard cover in the product disclosure statement but product disclosure statements are complex and can run over 100 pages. CHOICE research found that only 46% of people read the product disclosure statement for their policy and given the complexity of these documents, it is likely that even less people fully understand it. Monash University found that when given the option of a bad, okay and good policy, up to 42% of people would choose the bad product.<sup>7</sup>

An improved standard cover regime will give consumers more protection and ensure they have access to a clearly defined, appropriate level of minimum cover. In particular, the review of the regime should examine better ways of informing consumers of the impact of any deviations from standard cover.

We welcome the Federal Government's commitment to review the standard cover regime.

#### The Federal Government should legislate component pricing for natural hazard risk

Opaque pricing of insurance premiums makes it hard for consumers to understand how an insurer has assessed the risk of extreme weather events to their property and how this affects their premium. When an insurer provides a quote for a new or renewing insurance policy, this should include a breakdown of the components of the premium for each type of natural hazard their home faces. This practice of component pricing would act as a price signal about the risks people face and would enable them to make more informed decisions. It would also remove information asymmetries between insurance companies and their customers.

The Federal Government should introduce legislation to require insurers to break down prices in this manner.

#### Insurers need to proactively warn of underinsurance



*“I haven’t counted the cost, when I think about [the damage to] aircon, electricity, water meter that I had not considered I’m probably underinsured - I have not got the energy, [I am] busy trying to keep my job.” Female, insured, homeowner, flood in Hawkesbury river region of NSW*



*“[It’s very difficult to] know if you’re underinsured, even builders are not prepared to say, you can only go on the value of what houses are being sold, subtract the land value and hope you have enough money.” Female, insured, homeowner, cyclone in WA*

Rebuilding a home after it has sustained significant damage is more expensive than most people realise. In addition to the construction costs, there are costs of clearing the site (potentially including hazardous material), temporary accommodation and professional engineering and architectural services. In some cases, people need to rebuild to higher building standards than those that applied to their previous home. Construction costs can also quickly escalate due to shortages if a large number of homes are affected at the same time in the same geographic region.

It is not unusual for people to find themselves uninsured after an event that destroys their home. This means that they are then responsible for the gap between the cost of repairing the damage and the payout they can expect from their insurer.

78% of people say they are confident that their home insurance covers the cost of rebuilding their home. Yet, 32% of people that have settled an insurance claim for a bushfire, said that their home insurance was not enough to cover the costs.<sup>8</sup>

Consumers tend to let their insurance product roll over year to year without updating the sum insured amount, leaving them at risk of being underinsured when the level of risk to their property increases over time. CHOICE's research found that 85% of people have not switched insurance companies in the past three years.

Some people may not have an accurate sum insured, which reflects increased building and labour costs.

Insurers can and should be doing more to help consumers keep their sum insured amount up to date. Almost half, 45%, of those with home insurance had not updated their policy for more than 12 months.<sup>9</sup> Companies should be required to proactively warn consumers if they think they are potentially underinsured. This warning should be built into the purchase journey. Insurers should also send a warning on renewal notices and include records of the annual sum insured calculations insurers have done which resulted in the underinsurance warning. This was a key recommendation of the ACCC's Northern Australia inquiry, which has yet to be adopted<sup>10</sup> Community sector organisations agreed that insurance companies need to be doing more to assist consumers in this complex process:

*“Insurers can and should be doing more to help consumers keep their ‘sum-insured’ figure up to date.” Consumer Action Law Centre*

*“We need to see a shift in responsibility from individuals to insurers to ensure that the sum insured remains up to date.” Financial Rights Legal Centre*

*“The auto-renewal process for home insurance doesn’t incentivise consumer engagement.” Legal Aid NSW*



### Insurers should adopt a standard industry practice for debris removal



*“[In the floods, we lost] all the beds, all couches, lounge suites, kitchen table and chairs, books, photo albums, kids and grandchildren’s toys, books, clothes and shoes. We had already thrown out two thirds of our belongings onto the verge. There were 500 B-double [semi trailer] loads of rubbish [from the town].”*  
**Retiree couple, insured, homeowners, flood in Rochester VIC**

Insurers currently take different approaches to cover for debris removal, with some including costs of debris removal within what must be funded from the sum insured and others covering debris removal on top of the sum insured. The costs of debris removal are highly unpredictable, with most consumers having no experience that would allow them to calculate them. After these costs are effectively deducted from the sum insured for policies where this is required, the homeowner may be left with inadequate funds to rebuild.

The Royal Commission into National Natural Disaster Arrangements noted that the inconsistent approach to debris removal hampered recovery after a disaster and recommended that governments create and publish standard guidance.<sup>11</sup> Governments sometimes fund debris removal after a major disaster, but these processes can be drawn out and are complicated by the inconsistent treatment of debris removal under sum-insured home insurance policies. In 2022, the Financial Rights Legal Centre argued that debris removal and architectural fees should not be included in the sum insured but should be provided as benefits over and above the sum insured<sup>12</sup>

The ACCC found that insurers can provide clearer information to their customers to help them choose the level of cover that they need. Among a suite of recommendations aimed at helping consumers choose the right amount of cover, the ACCC has recommended that insurers should:

- estimate a sum insured for customers (Recommendation 18.4) and
- disclose costs that count towards sum insured (Recommendation 18.5)<sup>13</sup>

We are calling on insurers to adopt a standard industry approach to debris removal after an extreme weather event, to make policies easier to compare and reduce the risk of underinsurance.

### Include temporary accommodation in landlord insurance policies

People who rent are uniquely affected by extreme weather events. Under tenancy laws, a tenancy will cease when a home is declared uninhabitable. When large-scale disasters strike a region, people who rent are often displaced from their homes, schools, communities, family and faith based groups. Others are forced to live in substandard and damaged homes, putting their families’ health at risk.

The design of landlord insurance policies means that landlords receive all the policy benefits of financial support while a home is being repaired, while people who rent receive no direct or indirect benefit from a landlord’s home insurance policy. Many people who rent do not hold contents insurance policies — even when they live in disaster-prone regions. Stakeholders who contributed to this research suggested that this is because contents insurance is relatively expensive for limited benefit to renters, especially those on low incomes.



### Rebecca's story

Rebecca and her kids were renting in Brisbane and were affected by persistent rain in 2022. They did not have contents insurance:

*“We didn’t have contents insurance because of the asbestos in the roof and we did not plan to live there forever, but I live to regret that decision”.*

After days of persistent rain, they discovered there was water coming through the ceiling. The leaks started in the lounge and moved to the kitchen and bathroom. The real estate agent sent someone to put a tarp on the house. However, it did not work and continued to leak into her home. Rebecca said,

*“There were buckets everywhere, I was worried about the kids as there was asbestos in the roof, so they moved to my mum’s place”.*

The family made repeated calls to the real estate agent however the situation did not improve. At one point the real estate agent sent their father to inspect the asbestos in the roof and the family was told the house was habitable. Numerous notices to remedy were issued by Rebecca and ignored by the real estate agent. Rebecca said the rain damage was widespread in her home:

*“I bought a dehumidifier, mould was growing in the bedrooms, water ran into the cupboards, I couldn’t shower, or sit on the toilet. I could not put anything anywhere”.*

The family ended up moving out of the home, having never received a discount in rent. They were taken to the tribunal for breaking their lease. The homeowner put the property up for lease again, without making any additional repairs.



Temporary accommodation should be made available for people who rent as a provision of their landlord's insurance policy. This will provide renters with access to housing, enabling them to stay in their community.

### Recommendations

- 1. Legislate standard definitions**  
The Federal Government should legislate standard definitions for a broad range of common terms and conditions in home and contents insurance contracts. This should include terms like maintenance, wear and tear, and key natural hazard events.
- 2. Insurers be required to proactively warn consumers about underinsurance**  
The Federal Government should legislate that insurance companies be required to proactively warn consumers when they suspect policyholders are likely underinsured.
- 3. Adopt a consistent approach to debris removal**  
The insurance industry should adopt a consistent approach to the treatment of debris removal under sum insured policies.
- 4. Require insurers to disclose the price of natural hazard risks**  
The Federal Government should require insurers to identify the component of an insurance premium that is based on natural hazard risk for new and renewing home and contents policies.
- 5. Landlord insurance policies should include temporary accommodation for people who rent**  
Insurance companies should include cover for temporary accommodation for tenants in landlord insurance policies when their home is uninhabitable due to an insured event.

### Address unaffordable insurance premiums in disaster-prone areas

We spoke with a single mother living in Northern NSW with her two teenage kids and aged parent. In recent years, she has been affected by the 2017 and 2022 floods, the 2019-2020 Black Summer bushfires, droughts and the COVID 19 pandemic. She shared:

*"I'm a single mother on a single mother's pension, I am at risk of homelessness, I knew I was buying in a flood plain but did not want to risk being in the rental market."*

She did not have flood insurance when her home was flooded by just under a metre of water in 2022. She has home and contents insurance, but opted out of flood cover because of the cost:

*"It came down to affordability, I had no choice, I can't afford flood insurance. I did look into it, but it was prohibitive, maybe \$4,000 plus, I can't afford it."*

Insurance unaffordability is widespread across the community but particularly in disaster-prone regions where premiums have rapidly escalated. It disproportionately impacts people on lower incomes who tend to occupy a greater proportion of housing in more disaster-prone areas.

Despite many public inquiries investigating the nature and preparedness of communities to respond to natural disasters, there is still no clear data about the nature and scale of non-insurance and underinsurance due to unaffordable premiums. Many households in regions struck by floods in 2022 were uninsured and have relied on post-disaster government assistance to survive and recover. The consequences of non-insurance make recovery from a major natural disaster extremely difficult.



### What do we know about insurance affordability?

The Actuaries Institute found that one million households are currently experiencing extreme home insurance affordability pressure.<sup>14</sup> These households face insurance premiums in excess of four weeks of gross income and are likely to be older, retired and renting, have lower insurance literacy, live in socioeconomically disadvantaged areas and have lower current savings balances.

The South Australian Council of Social Services (2022) reported that approximately 6% to 10% of low-income home owning households do not have home insurance.<sup>15</sup> Approximately 50% to 67% of people on a low income do not have contents insurance. SACOSS describes the following risk factors 'creating a perfect storm' around uninsurance:

- Insurance premiums have been rising and will continue to rise with increased natural disasters.
- Financial strain on households has increased during the COVID-19 pandemic, with the risk that these households may let their insurance premium payments lapse, leaving them uninsured.
- People on low incomes are more likely to live in areas with higher risk of natural disasters because the housing tends to be cheaper.
- People on low incomes are unlikely to have the resources or power to engage in much mitigation (because they're renting, and/or because of the cost).

A Climate Council national survey found that 1 in 20 people had cancelled their insurance coverage due to an increase in their home and contents premium and 1 in 9 had reduced their overall coverage. A further 1 in 20 people had been told by their insurance provider that they could not be insured and a third of people that did have insurance said they were struggling to afford their premiums. The Climate Council found that nearly two thirds of people reported that their premiums had increased in the last two years.<sup>16</sup>



The ACCC estimated that 89% of insurable properties have home insurance. The rate of insurance can, however, vary significantly by location. For example, the ACCC found that just 60% of insurable properties were insured in North Western Australia. Lower uptake of home insurance is associated with regions with a lower socio-economic profile and/or higher exposure to extreme weather.<sup>17</sup>

The ACCC's analysis of data from insurers also found that as premiums rose, for example in Port Hedland, the average sum insured declined as people sought to manage their premiums. This can help to explain the persistence of underinsurance in disaster-prone areas.

### Policy solutions to assist people with unaffordable insurance premiums

#### Targeted direct subsidies are needed to assist people with unaffordable insurance

When the ACCC examined a range of policy measures to address affordability of insurance in areas of northern Australia affected by cyclones, it identified subsidies as the most economically effective measure. The ACCC found that:

*“Direct subsidies have the greatest potential to work in a targeted way to relieve some of the acute affordability and cost of living pressures facing consumers in higher risk areas, at a lower cost and more effectively than other measures.”<sup>18</sup>*

Given the growing number of properties affected by other natural hazards, it is time for the Federal Government to consider targeted, direct subsidies for some people for whom insurance is unaffordable. The use of subsidies could be piloted in communities where insurance is affordable for most and particularly for people on low incomes. Subsidies should be carefully targeted, with eligibility based on the level of premium and the person's income.

While subsidies can help to make insurance more affordable, they must be balanced with an obligation not to put people in harm's way. Poorly designed subsidies risk sending the wrong signal to communities living in areas with a high risk of natural hazards about the level of risk they face.

There may also be other barriers to access that can't be fully addressed by subsidies. Good Shepherd shared:

*“Subsidies will work for a cohort but not everyone...If people are excluded from the insurance market right now, we can't assume that they will be ready, willing and able to re-enter that market.”*



The ACCC should be funded to monitor the implementation of a pilot of direct subsidies to ensure that insurers do not absorb subsidies and that subsidies do not significantly distort market outcomes. Subsidies should also be carefully designed to complement mitigation programs, rather than undermine them. A well designed pilot would help policymakers to determine whether direct subsidies should be rolled out more broadly.

### Microfinance insurance products need to be further explored

Some people are caught in a disaster-induced poverty cycle because they did not have insurance, or they did not have enough insurance, and so they can not afford to rebuild their home or are pushed back into the private rental market.

Insurance products need to meet people's needs, including the needs of people on low incomes. Micro-insurance, which provides insurance products at an affordable rate specifically to households on low incomes, could be a partial solution to the problem of access to insurance for people on low incomes. The South Australian Government has funded Good Shepherd and the Brotherhood of St Laurence to investigate the feasibility of a government funded, not-for-profit, micro-finance home insurance product.

An effective and well-designed microfinance product could help people on lower incomes have a stronger safety net during natural disaster events. Governments should continue to fund trials for microfinance insurance products in order to test the degree to which these products can address some of the problems with access to insurance for people on low incomes.

### The Federal Government should initiate an inquiry into insurance affordability, especially for lower-income households.

Even if the other recommendations in this report are implemented, there are likely to be significant and ongoing problems with affordability of home and contents insurance in many parts of Australia. To better understand these problems and the best ways to address them, the Federal Government should conduct an independent inquiry into insurance affordability. We recognise that there have been a number of recent

existing inquiries on the insurance market, however there has not been an inquiry which is focused on insurance affordability across the country. There is a lack of data about the rates of insurance unaffordability in different parts of Australia.

The inquiry should consider:

- the current levels of non-insurance and underinsurance in home and contents insurance
- the impact of non-insurance and underinsurance in the aftermath of a disaster
- the effectiveness of recent federal and state government measures designed to improve insurance affordability in disaster prone regions
- whether other measures, such as widespread subsidies or an expanded government reinsurance pool, for example to flood risk, is necessary to improve insurance affordability and
- options to increase home and contents insurance affordability in disaster prone areas.

## Recommendations

### 6. Subsidise insurance in areas where it is unaffordable

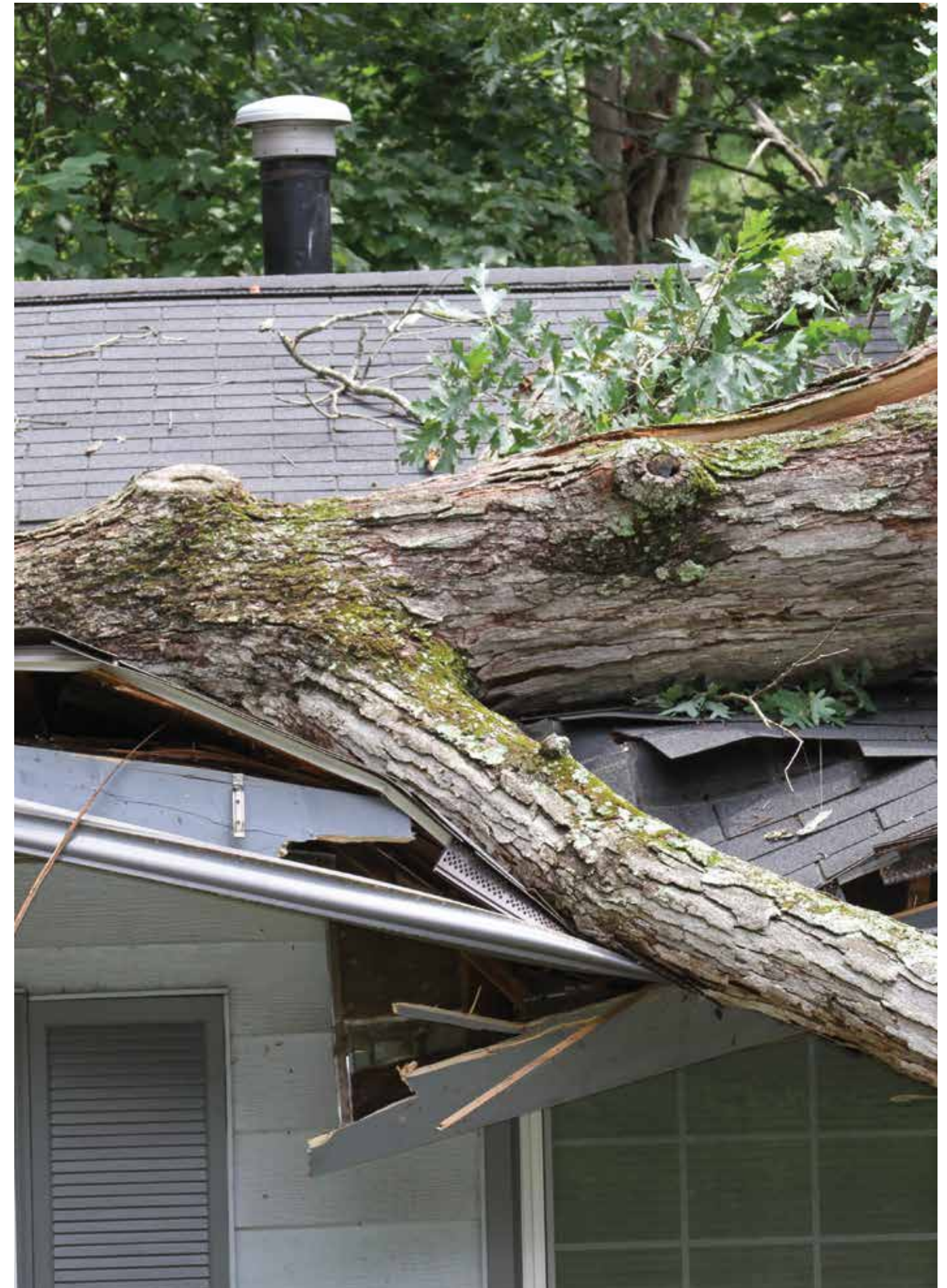
The Federal Government should trial subsidies for home insurance in communities where insurance is unaffordable for most people and particularly for people on low incomes.

### 7. Microfinance insurance product trials

Governments should expand funding for trials of microfinance insurance products to provide access to insurance for people on lower incomes.

### 8. Investigate affordability

The Federal Government should conduct an independent review of the current and future affordability of home insurance, particularly for households on lower incomes in extreme weather prone areas.



Improve access to hazard risk information

We asked people if they knew about the risk when they moved into their property



*"[We] owned the property since 1987. We never discussed flooding when we bought, I don't remember the flood ever being talked about. It was more the drought in my mind. We had water savings during the drought."* **Female, insured, homeowner, regional Victoria, flooded in 2022.**



*"No — it was more than 30 years ago since a damaging cyclone came through the town. In the first few years from 1988 to 1999 there were a few small events, mostly false alarms and people became complacent. We became aware when Cyclone Vance came through - prior to that we'd had "extreme" wind 150 kms per hour and rain. Vance's wind was 300 kilometres per hour and the epicentre was only 30 kms away. We got clobbered by Vance."* **Female, insured, homeowner. Her family has been affected by Cyclone Vance (March 1999), Olwyn (March 2015), and Quang (May 2015).**



*"[We] knew we were in a flood prone area but did not think our property would flood as it had not flooded before. We asked a lot of people about flooding before we bought, our house had never been flooded even in 2017.*

*We were definitely aware of certain parts of Mullumbimby that flooded that we did not want to buy - we thought our area was safer"* **Couple with two young kids, insured, flood in Mullumbimby NSW**



*"Yes aware — I know it's a flood zone, I had been living in South Lismore already. We could only afford to buy here and it was where our child was at school and the other parent was at work. They are putting lower socio-economic people at risk, I bought the house for \$170k in 2016 — it was all I could afford.*

*Until you actually go through a flood you don't know how bad it is. I went in with a bit of ignorance, you can't understand it until it happens.*

*Now I can't get another loan, even if I sell to stay in the community, a lot of people are in the same position. There are few options for me."* **Mother and daughter, uninsured, homeowner, South Lismore NSW, flood**

People need better access to information about the current and future exposure of their home to risk of extreme weather events but this information is currently difficult to find. The quality of information available for different types of risks can also vary significantly, with information on flood risk being particularly difficult to understand. This is typically published by local government bodies to inform planning decisions but it has not been developed with consumers in mind.

In the past, identifying a property's risk to an insurable natural hazard may have been an infrequent activity. However, the worsening climate means that risks to many properties have changed in recent years and will continue to change. Consumers need to understand the consequences of this dynamic environment, including how it can affect their home insurance premiums. Access to timely information about evolving risk exposure can also inform the mitigation measures people may undertake to lower their risk exposure. Improved climate risk modelling is also important to understanding a property's long-term risk profile when deciding whether to purchase a home. Lenders require home buyers to insure their homes over the lifetime of a mortgage, and most people would expect to be able to obtain insurance throughout the life of the home loan. Under responsible lending obligations, lenders must not enter into a credit contract with a consumer if the credit contract is unsuitable for the consumer and the cost of home insurance is typically considered when assessing suitability. Better information about natural hazard risks and future modeling of risks could be used by lenders to more accurately estimate insurance premiums for the term of the loan as part of their responsible lending obligations.

*"Insurance is only guaranteed for one year at a time, but your loan might last 25-30 years."* **Financial Rights Legal Centre**

We spoke with a mother and son living in the Hawkesbury river region of NSW, their house is located on a floodplain. They were aware that there was some risk of flood when they purchased the brick and timber house, but didn't know how bad it could get. She said:

*"We didn't think the risk was that high and we couldn't afford to live anywhere else."*

They had been in the house for 9 years and had lived through three separate floods, in March 2021, March 2022 and July 2022. She indicated that they bought the house on the understanding that there was a one in a 100 year flood risk, which she took to mean every 100 years she could be flooded versus there being a 1% chance every year of being flooded. The increase in floods has caused a jump in her premium price:

*"My insurance, including flood cover, cost me \$9,000 this year. I used some of my last payout to pay for it, but I'm not sure if I can afford it next year."*

Like many others, their property's value has reduced significantly, leaving them trapped in an unsellable home.



How do consumers find out their level of risk?

People have to rely on piecemeal and inaccurate information about their property’s level of risk. The ASIC Money Smart website encourages consumers to find out if their home is in a natural disaster-prone area by contacting their insurance company, local council and state or territory emergency services organisation.

It is unclear what information an insurer can or will provide to their customers. The Insurance Council of Australia’s Understanding Insurance website directs consumers to their local government to obtain property-level information about flood risk. The Insurance Council of Australia states that governments are responsible for assessing and mapping the flood risk to communities. It notes that:

*“Unfortunately, many parts of Australia that have flood risks lack adequate flood data or have outdated flood maps. Most jurisdictions are working hard to improve the accuracy and availability of their flood information.”<sup>19</sup>*

Different jurisdictions have developed various consumer-facing tools to assist communities to understand general flood, bushfire, cyclone and storm risks. In Queensland, people can access free property-level Coastal Hazard Maps which show areas vulnerable to coastal erosion or permanent tidal inundation, as well as the projected climate change impact to 2100. The NSW Rural Fire Service has an online tool to check if a property is in a bushfire prone area. CoastAdapt is an online tool that maps the impacts of sea-level rise for coastal LGAs. Emergency services organisations will typically refer people to local government for property-level flood risk information.

There are some private Australian providers of climate risk information at a property level, such as Climate Valuation which currently provides a Comprehensive Climate Impact Report for \$45. The Climate Council’s Climate Risk Map is an interactive map of climate vulnerable places in Australia at the postcode level.

While some of these sources of information are useful in some circumstances, the inconsistent and fragmented way in which they are produced means that it is very hard for most people to find the information they need.



The community needs a single source of property level risk information.

Consumers need to have access to accurate and timely information about the natural hazard risks of their home. Governments should coordinate to develop a National Hazard Risk Database that provides easily understood, open access information about current and future climate risks to individual properties.

The general insurance industry has already partnered with governments to develop the National Flood Information Database for use by insurers in determining the flood risk to individual properties. The database contains 11.3 million addresses and is based on local council mapping but it is not currently a public database.

As a starting point, the National Flood Information Database should be made publicly available. People should be able to easily look up their address and access information regarding the current and future risk to their homes, enabling them to make empowered decisions. The National Flood Information Database should also be regularly updated and could eventually be included in a broader, National Hazard Risk Database with data on the risk of cyclone, bushfire and coastal erosion.

Many recent reports and inquiries, including the Royal Commission, NSW Flood Inquiry and the Actuaries Institute, have called for publicly available climate risk modelling of natural hazards at the property level. They have noted the significance of this information for informed decision making about property transactions and mitigation investments. The Productivity Commission in 2014 found that many customers underestimate, or are skeptical about, the risks they are exposed to.<sup>20</sup> Almost a decade later, the NSW Flood Inquiry delivered a finding that:

*“Most landholders seem to have little idea if their property is at risk of disaster or has ever been affected previously by disaster.”*

The property-level information contained in a National Hazard Risk Database could be used to enhance public awareness of natural hazard risks by:

- disclosing property-level natural hazard risks when properties are advertised for sale or rental
- informing insurance decisions about property-level exposure to natural weather events, particularly flood
- informing mortgage lenders’ assessments of likely insurance costs over the life of a mortgage as part of their responsible lending obligations
- communicating to insurance customers and people who rent about changes in natural hazard risks to their home over time

Policymakers also need to test the best ways of providing and explaining this information to consumers. The Royal Commission into National Natural Disaster Arrangements recommended that governments should develop ways in which natural hazard risk information can be better communicated to the public — particularly to people who are making decisions that will affect their exposure to those risks. For example, those selling a home might be required to disclose this type of information to prospective purchasers.<sup>21</sup>

Recommendation

9. Build a single source of information on risk to properties

Governments should work together to develop a Hazard Risk Database that provides easily understood, publicly available information on current and future climate risks to individual properties. This Database should include data on the risk of floods, cyclones, bushfires and coastal erosion.



## Lower premiums by reducing risks

*"[We] lived in the region a long time and the house is surrounded by bush.*

*When we bought the house we were not required to have sprinklers but we put them on to be safer, when we moved in [there were] no fly screens [so we] had to put them on to comply with bushfire safety regulations.*

*We are always thinking about being better prepared. Our fire sprinklers stay up all summer, now we keep them up until [the] end of March or longer. We keep clearing around the house, it's well maintained, short grass and fire resistant plants like cacti. Fire risk and being prepared are constantly on our minds.*

*[Our home] is straw bail, which is more fire proof than double brick, and treated with fire retardant, rendered on the outside with a Colorbond roof.*

*We have no trees within falling distance of the house - they asked us about having trees within 20 metres of the house."*

*We spent \$6000 to \$8000 to get trees removed - perhaps there should be a ... reward with a lower premium if they cut down trees."*

**Retired couple living in Wallagoot NSW, their home was affected by the 2019-2020 Black Summer bushfires**



Reducing risk, where possible, is a vital response to living with more frequent and intense extreme weather. Consumers need the resources and information to help them understand what mitigation measures they can implement to lower their risk profile. Many consumers are already taking steps to reduce their risk, but few report seeing a change in their premium.

People need clear guidance about the steps they could take to reduce their exposure to insurable weather events. These messages need to be simple and actionable, with tangible benefits. Actively involving communities in the dissemination of risk mitigation information can also spread the burden of knowledge across the whole community. For example, after the 2011 Brisbane floods, the Yeronga Community Centre was funded to help the local community prepare for disasters and assist in the recovery phase too.<sup>22</sup>

The Climate Council observed that property-level, risk mitigation is occurring across Australia:

*"People will do stuff every year to manage the fire risk around their property and a lot of that is not big investments... There is a lot of stuff that people can do to reduce risk significantly, but [they] do require some prior knowledge and a bit of work."*

There is considerable value in both community-level and property-level risk mitigation. Resilient homes and communities will still be affected by extreme weather, but their recovery will likely be quicker and cost less.

State governments have implemented the following programs to assist disaster-affected and disaster-prone regions to implement property-level mitigation measures:

- The Queensland and Federal Governments have developed the \$741 million Resilient Homes Fund to help Queenslanders across 39 local government areas whose homes were impacted by the 2021-2022 floods.<sup>23</sup> Under the Resilient Homes Fund, funding is available to assist eligible flood-impacted homeowners to repair (enhancing resilience), retrofit or raise flood-affected homes. Voluntary Home Buy-Backs will also be considered on a case-by-case basis.

- The NSW Government’s Resilient Homes Program is providing financial assistance to homeowners to improve the flood-resilience of residential properties in the Northern Rivers Region.<sup>24</sup> It will offer eligible homeowners one of the three available measures, based on expert property assessments, flood impact severity data, safety risks and potential future flood levels: Home buybacks, home raising, or home retrofit. The NSW Government also manages the Resilient Lands Program with \$100 million in funding allocated to relocating homes to higher ground.
- The Queensland Government’s Household Resilience Program provides funding to help eligible homeowners in coastal parts of Queensland improve the resilience of their homes against cyclones. Homeowners who participated in the program reported an average insurance premium reduction of 10.3%.<sup>25</sup>

Key fact

The CSIRO has found that a \$1 investment in climate adaptation or disaster risk reduction saves between \$2 and \$11 in post-disaster recovery and reconstruction.<sup>26</sup>



Helping households to reduce their risks

Insurers must consider any property-level mitigation measures

People should be able to take simple steps to make their home more resilient and reduce their risks. Insurers should be required to consider the impact of any measures that a person has taken to reduce risks when determining the price of a new or renewing insurance policy, and should explain how this has been assessed. This requirement should be reviewable by the Australian Financial Complaints Authority. The insurance industry should work with consumer stakeholders to develop tools, where necessary, for consumers to easily verify mitigation works.

The National Emergency Management Agency (NEMA), through the Strategic Insurance Project, is leading the development of a national mitigation measure knowledge base that will support households to understand their risk and the actions they can take to reduce risk.<sup>27</sup> This project to develop a national mitigation measure knowledge base may help to address this need. This may be preparatory work to deliver on the Royal Commission (2020) Recommendation 19.2 that the insurance industry, working with governments and stakeholders, should produce and communicate to consumers clear guidance on individual-level natural hazard risk mitigation actions that insurers will recognise when setting insurance premiums.

The ACCC has also previously called for insurers’ quotes and renewal notices to:

- display what discounts have been applied (if any) to reflect mitigation measures undertaken on that property, and
- include a schedule of mitigation measures which customers in similar properties have undertaken to improve their risk rating and a guide to the premium reduction that consumers have received for undertaking these measures<sup>28</sup>

This important reform has yet to be adopted and would provide greater clarity to people who wish to make their home more resilient to extreme weather events.

Rented homes must be resilient to extreme weather events

People who rent deserve to live in resilient, safe, and healthy homes. However, many people who rent live in homes that are exposed or poorly adapted to the risks of extreme weather events. Renters are often unable to make meaningful adaptations to make their homes more resilient.

State and territory governments should modernise residential tenancies legislation to require landlords to take reasonable steps to make rented homes resilient to climate risks. Resilience should be considered a minimum habitability standard for all rental homes in Australia. For example, possible resilience changes could include upgrading roofing and windows with fire resistant materials, lifting the height of power sockets or waterproofing exterior walls. These requirements could be phased in over time to allow landlords time to implement improvements.

Homeowners on lower incomes should be supported to make their homes more resilient

Many homeowners will not have the financial means to invest in risk mitigation measures. In some cases, financial assistance will be needed to undertake cost-effective retrofits to make housing more resilient. Financial assistance will need to be tailored to the needs of different groups including private renters, community housing and owner-occupiers.

Households on lower incomes should be empowered to make changes which make their home more resilient to climate risks. The Federal Government is investing in community-level mitigation through its Disaster Ready Fund which provides up to \$200 million annually to build disaster resilience and mitigation projects across Australia<sup>29</sup> but this fund is not currently available to support property-level mitigation. If just 5% of the Disaster Ready Fund were set aside for this purpose, \$10 million could be available annually to help owners reduce their risk exposure in highly exposed communities.

Governments should make free property assessments available to homeowners on lower incomes to recommend mitigation measures. For example, the NSW Resilient Homes Program has included free

property level assessments for any homes damaged in the 2022 floods.<sup>30</sup> This opt-in program provides homeowners with a free, detailed assessment report, including a comprehensive scope of repair works and an estimate of repair costs. This type of service should be available for other households struggling with insurance affordability.

Recommendations

10. Ensure that people are rewarded for taking steps to mitigate risks to their properties

Insurers should be required to consider relevant property-level mitigation measures in any new or renewing insurance policy, and to demonstrate how those measures have been reasonably reflected in the proposed premium. Governments and insurers should provide advice on mitigation measures that people could take and provide free assessments for people who have undertaken mitigation on their homes.

11. New obligations for rented homes to be more resilient

State and territory governments should amend residential tenancy laws to require landlords to take reasonable steps to make rented homes resilient to climate risks.

12. Allocate financial assistance for mitigation measures

Governments should allocate sufficient funding to assist property owners on low incomes and social housing providers in disaster-prone regions to undertake approved, cost-effective property-level mitigation measures.

## Help people to leave dangerously exposed housing

Acutely exposed properties are likely to require solutions beyond insurance. Recent extreme weather events have demonstrated that some existing housing stock, for example in the northern NSW flood plains, is no longer insurable or, more importantly, safe. Some parts of these communities have hit the limits on mitigation as a solution to remaining in a safe and insurable home. A number of communities in northern NSW and Southern Queensland, working with local and state governments, have started the difficult process of managing and planning their retreat from unsafe and uninsurable locations.

Living in dangerously exposed housing can have lasting social and economic impacts on households. An individual from Windsor NSW, whose home was affected by floods in 2020, 2021 and 2022, shared with us:

*“I’d never buy in a flood prone area again, when you go through it, it’s traumatic, it takes a mental toll... My tolerance has gone after 3 floods, so has my marriage”.*

Participants shared with us the impact that extreme weather events had on their mental health, homes and communities. Many spoke about living with post-traumatic stress disorder and hypervigilance, and reported higher levels of anxiety in their children. Some participants shared that they are struggling with isolation as neighbours have left their damaged homes, or moved out of town altogether as the risk of future

events is too high. A retiree, living in Rochester Victoria, whose home was affected by floods in 2022, shared:

*“I feel very isolated in town now. At the end of the street there were always cars, and people walking. It’s not like that anymore, because people have left town. When I go up the street, the shops are shut and won’t be reopening, local merchants are struggling. I find it depressing and gloomy. There is nobody here to connect with”.*

As extreme weather events become more frequent and intense, and affect new areas, more people will likely find themselves in uninsurable and potentially unsellable properties. The Climate Council has forecast that by 2030, 4% of properties (1 in 25 properties) will be ‘high risk’ and uninsurable, with projected annual damage costs equivalent to 1% or more of the property

replacement cost.<sup>31</sup> Proactive government measures are needed to move people out of harm’s way. This is likely to involve targeted buybacks and will require careful and human-centered conversations with communities, especially First Nations peoples.

In areas where mitigation and adaptation systems cannot adequately or economically manage the losses suffered from persistent severe weather events and rising sea levels, there is increasing recognition that communities need to consider relocating some or all of their people and assets.

It is also vital that all levels of government work together to prevent future developments that put people in harm’s way. This will require a concerted effort to model climate risks and adopt approaches to land use planning to prevent new developments in high-risk areas.



Reforms to assist people in exposed housing

National Cabinet should agree upon a consistent approach to planned relocation

While retrofitting and measures like raising homes play an important role in protecting some people from risk, relocations and buybacks need to be considered for people that live in highly exposed areas. Coordination will need to occur across all governments to identify the areas most at risk and plan, in consultation with communities, to move them to safer areas.

Community relocation due to natural hazard risk is not a new concept in Australia. Gundagai in New South Wales and Clermont in Queensland provide two historical examples of townships that were relocated after floods as both towns experienced severe loss of life.<sup>32</sup> In Gundagai, 89 people out of a population of 250 drowned in May 1851 (Australia's worst-ever flood in terms of loss of life) and 64 people drowned in Clermont on 28 December 1916.<sup>33</sup> Following devastating flash floods that resulted in the death of 12 people in Grantham, Queensland in January 2011, local council implemented a voluntary land-swap scheme to relocate residents from the floodplain to higher ground and as of July 2013, 115 households had signed up to relocate to the new Grantham.<sup>34</sup>



As these examples illustrate, relocations have typically only occurred in the aftermath of devastating events. Governments must instead take a proactive approach to protecting communities in areas exposed to high risk.

Natural disasters cost Australia an average of \$38 billion a year<sup>35</sup> and have a devastating impact on the mental health of people affected. Planned relocations and buybacks will help prevent future harm, taking people out of the path of natural disasters and lowering the cost of recovery for clean up, emergency services and rebuilding of infrastructure

Recognising that relocation and buybacks require coordination across all levels of government, National Cabinet should agree on a consistent framework for planned relocation. This could be modelled on the recent IAG and Rhelm report.<sup>36</sup> IAG and Rhelm recommended that a national strategy should cover:

- Key objectives and performance indicators for Planned Relocation Schemes.
- Models for Planned Relocation (e.g. buy-back and community relocation).
- Guidance on the planning, decision-making, implementation, and integration phases.
- Models for holistic community engagement, including specific considerations for First Nations People.
- Consideration of vulnerable community members, including people with a disability and the elderly.
- Guidance on land use planning and management, including the management of vacated land.

Governments need to provide funding for community-led conversations

Governments should commit targeted funding to enable community consultations about how to respond to natural hazard risks in dangerously exposed communities. Community centered consultation for people living in extremely exposed areas, before, during and after disasters, can help to reduce the confusion and stress that people typically experience. Governments involving communities in decision making will empower them and create better outcomes that reflect their needs and expectations.

Currently, community engagement is occurring on an adhoc basis, largely dependent on the strength of individual communities and local governments within the confines of existing programs such as the Queensland Resilient Homes fund and the New South Wales Resilient Homes Program. A consistent approach across Australia should be adopted with adequate funding to identify communities most at risk from natural disasters and involve them directly in the decisions being made about their future.

Consumer advocates consider the Queensland's Resilient Homes Fund as an effective example of governments supporting people in extremely exposed communities. The fund is a pool of \$741 million available to Queenslanders in 39 local government areas whose homes were affected by the floods of 2021-22. It gives eligible homeowners the options to repair, retrofit, raise or demolish their home. For the most severely impacted people, who remain at a high risk of future flooding, there is also an option for a voluntary home buyback. As of late June 2023, 800 homes were deemed eligible for the buyback program, 370 offers had been accepted by homeowners and 238 homes were sold.<sup>37</sup>

The Resilient Homes Fund also involves local government in the management of the buyback scheme. Coordination across all levels of government is important in providing affected people with the support to recover and be more resilient for future extreme weather disasters. Appropriate community consultation is being undertaken to ensure people have their voices heard, understand their level of risk and are aware of their options. This model could be expanded across Australia in communities which are in exposed communities.

Recommendations

13. Plan for relocation of communities at high risk

National Cabinet should agree on a clear and consistent approach to supporting relocation of communities that face high risk of natural disasters.

14. Fund community engagement

Governments should provide funding for dangerously exposed communities to undertake consultations about ways to mitigate future risk, including the possibility of relocation.



METHODOLOGY

Policy research

We contracted Elissa Freeman of Elissa Freeman Consulting to prepare a policy paper for this report. This paper draws on the wealth of research and investigations published by independent commissions of inquiry, regulators, industry participants and academics. A stakeholder roundtable was held on 26 May 2023 and stakeholder interviews were conducted with:

- Australian Council of Social Services
- CHOICE
- Climate Council
- Consumer Action Law Centre
- Federation of Community Legal Centres (Victoria)
- Financial Counselling Australia
- Financial Rights Legal Centre
- Good Shepherd
- Legal Aid NSW
- Tenants' Union of NSW

Quantitative research

In June 2023, CHOICE conducted a nationally representative survey of home insurance policyholders (n = 1037).<sup>38</sup> This research measured consumer understanding of home and contents insurance, and asked people if they thought they had enough insurance to recover after an extreme weather event. The survey also asked consumers about their experiences of insurance affordability and any risk mitigation measures they have taken.



Social research

We commissioned Bartley Consulting to interview a sample of 21 homeowners and renters to understand consumers' experience of the home and contents insurance market during and following extreme weather events. We were primarily responsible for recruiting participants, with support from Bartley Consulting. The participants from around Australia had experienced a range of extreme weather events, although most commonly they were flood affected. We were interested in the experiences and perspectives of both homeowners and renters: most participants were homeowners (n=15) and a proportion (n=6) were people who rent.

Scope

This report investigated the experience of home and contents insurance and extreme weather for people who own and rent their homes. This report does not explore landlord, strata, life or vehicle insurance or the claims handling process.

Throughout this report we refer to 'natural disasters' 'natural hazards' and 'extreme weather'. We use these terms interchangeably to refer to floods, bushfires, storms, cyclones, coastal erosion, droughts, hail and excessive rainfall. We recognise that these events are becoming more frequent and severe as a direct result of human induced climate change.

Mental Health support

If this report has raised issues for you, there is help available:

Beyond Blue 1300 224 636  
Lifeline 13 11 14  
NSW Mental Health Line 1800 011 511  
Suicide Call Back Service 1300 659 467  
National Debt Helpline 1800 007 007

Endnotes

1 Insurance Council of Australia, News Release; Three year weather bill reaches \$12.3 billion, 30 November 2022

2 CHOICE Insurance Premium research is based on a survey of 837 Australians that have home and contents insurance. Quotas were applied for representations in each age group as well as genders and location to ensure coverage in each state and territory across metropolitan and regional areas. Fieldwork was conducted from March 29th to April 19th 2023. The survey was designed and analysed by CHOICE with fieldwork provided by The ORU. The ORU are ISO 20252 and 26362 accredited and are full AMSRO members.

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