

SUBJECT: NOM 23/08/22 – AVAILABILITY AND AFFORDABILITY OF FLOOD INSURANCE FOR RESIDENTS AND BUSINESSES IN LOW LYING AREAS

COUNCILLORS: CR McCABE

PURPOSE

The following Notice of Motion was received on Thursday 11 August 2022 from the abovementioned Councillor.

MOTION

That City of Newcastle

1. Notes that residents and business owners in flood risk areas of Newcastle are reporting difficulty in affording suitable flood insurance and finding that some insurers are refusing to provide flood insurance at all.
2. Notes that the *Newcastle [Flood Risk Management Plan](#)* (Table 6-10) says Council needs to ensure:
 - ***Improved understanding of flood risks by insurance companies:*** *Work with Insurance Council of Australia to help Insurance Companies understand the risks associated with flooding so they can provide realistic insurance cover, rather than generalised over large areas / regions / states*
 - ***Improved community understanding of flood insurance:*** *Help the community unravel the detail of insurance cover so they understand what floods are included and what isn't included in individual policies.*
3. Initiates, organises and promotes a public information session with residents, council staff and their flood risk consultants, Hunter Water, and the Insurance Council of Australia to:
 - (i) Discuss the high cost of premiums and the insurability of properties in flood risk zones in the Newcastle LGA.
 - (ii) Clarify the information that council and insurers have about the risk to properties, its availability to residents, and how the information affects council planning decisions and insurance risk assessments.
 - (iii) Explore ways to alleviate the financial costs that residents in low lying areas are experiencing due to their increased insurance premiums.
 - (iv) Provide the opportunity for residents to ask questions of and seek clarification from the City of Newcastle, Hunter Water, and the Insurance Council of Australia around issues of flood risk assessment and flood insurance.

BACKGROUND

The [Newcastle Flood Risk Management Plan \(2012\)](#) estimates that in a rare but serious flood (1% Annual Exceedance Probability - AEP) 2,240 properties in the LGA would suffer over-floor flooding, 1,760 of them residential properties, with a direct damages bill estimated at \$283 million. Even in a much smaller but more frequent flood (10% AEP) 250 properties in suburbs such as Wallsend, Hamilton, Carrington, and Maryville would be affected with damages estimated at \$53.7 million (Table 5-4).

Recovery from such disasters is difficult and expensive but can be helped if the physical losses are covered by insurance. However, recent fire and flooding disasters have meant large payouts by insurers and coupled with the climate-driven increase in the intensity and frequency of disasters, insurers have increased their premiums and in the most at-risk areas insurance has become unavailable or unaffordable.

Many residents in areas of Newcastle that are shown on [Council's Flood Risk Map](#) as being in low, medium, or high flood risk areas are reporting they cannot get or cannot afford suitable flood insurance. Recent complaints to Councillors and conversations with residents raised several issues that threaten the ability of Newcastle residents who live in flood-risk areas to access suitable flood insurance.

Some typical examples taken from low and medium risk in Carrington, Wickham, Hamilton, and Hamilton South are:

Case 1: Home in a low-risk flood zone that experienced over-floor flooding in the 2007 Pasha Bulker storm: Home and contents premium with regular insurer increased from \$2,100 last year to \$9,000 this year. When asked (by the broker) the company would not give a specific cost for the flood component. A search of other companies' websites as a new customer showed the property at that address had an "uninsurable flood risk". After shopping around, they finally found an insurer willing to insure for \$3750. All the 10 insured resident homeowners who provided information had similar experiences and reported increases from last year to this year of 60% to 300%. Several reported that when shopping around for cheaper premiums many insurers, especially the budget brands, would not insure them at all. Several expressed concern that the affordability and insurability would become even worse as companies deal with the claims from the recent NSW floods.

Case 2: Home in a low-risk flood zone that experienced over-floor flooding in the 2007 Pasha Bulker storm: Flood component of home and contents insurance increased by about \$1500 a few years ago and they decided, having experienced flooding in 2007, it was cheaper to carry the risk themselves, so they no longer have flood insurance. A third of the resident homeowners who provided information have chosen not to take out flood insurance, mainly due to increases in the cost of premiums. Many used the 2007 Pasha Bulker storm as a 'benchmark' against which they measured their risk from future flooding and the likely cost of damages.

Case 3: Home in a low-risk flood zone: This property was not flooded over the floor in 2007, although neighbouring properties were. Prior to 2007 the owner had taken advantage of a major renovation to replace the old piers and

raise the wooden-framed house by about 500mm. The owner does not have flood insurance as he feels the house is now safe from future flooding. (Note: the NSW Government has a small grants program to help [fund voluntary house raising](#). It is funded 2:1, with one third coming from either the homeowner or the participating Council.)

Other issues and concerns raised by residents about flooding and flood insurance were:

- Confusion and misunderstanding about cover for different flood types: stormwater (usually a standard inclusion under 'storm damage' in all policies); riverine and estuarine flooding (if available, often as an option with a high premium), and ocean flooding caused by storm surge and high tides (often not included or not available). Ocean storm surge is the main cause of flooding in suburbs such as Carrington, Wickham, Islington, and Maryville, so residents need to ensure it is included in their policy.
- Uncertainty about if and how insurers assess building characteristics when setting flood risk premiums for individual properties. For example, will they offer a lower premium for a modern property with a floor level above the 1%AEP flood, compared to an old house in the same area with a floor below the 1%AEP flood level? If they do, how do residents find out that information?
- A mistaken belief that Council shares responsibility for premiums going up due to their flood risk maps, especially the maps that include the increasing risk from predicted climate and sea level changes.
- Concern that properties will be harder to sell if flood insurance is unavailable or unaffordable, as insurance is required to secure a mortgage.
- A common misperception that severe flooding is due to poorly constructed and maintained Council stormwater drainage.

Most of the flood affected areas in the Newcastle LGA are older, well-established suburbs, such as Wallsend, Carrington, and Hamilton, so making modifications to buildings and infrastructure is often impractical or can only be done when the assets are being replaced or upgraded. In the meantime, insurance will continue to be a necessary part of recovery.

With the unaffordable increases in insurance premiums likely to get worse as insurers try to recover losses from recent floods and fires, it is timely that Council act on the recommendations in the Floodplain Management Plan and begin a process of engaging with insurers, planners, and residents to ensure businesses and residents in flood-affected areas can continue to afford comprehensive building and contents, and business insurance.

References

[Newcastle City-wide Floodplain Risk Management Study and Plan \(2012\)](#)

[Newcastle City-wide Floodplain Risk Management Study and Plan \(2012\) - Maps](#)

[Interactive flood map](#)

[Wallsend Commercial Centre Floodplain Risk Management Plan \(2009\)](#)

[Strategic Position Paper on Low Lying Areas - Wickham, Carrington, Maryville, Islington](#)

Insurance Council of Australia [Flood Insurance Explained](#) (2021)

[John Martin's home insurance premiums in Carrington go from \\$1900 to \\$13,200 due to Allianz flood cover change | Newcastle Herald](#)