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**HOUSE OF REPRESENTATIVES**

**BILLS**

**Insurance Contracts Amendment Bill 2011**

**Second Reading**

**SPEECH**

**Tuesday, 13 March 2012**

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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## SPEECH

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**Speaker** Billson, Bruce, MP

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**Mr BILLSON** (Dunkley) (20:33): Madam Acting Deputy Speaker, what a treat to be able to speak with you again this evening and convey the coalition's support for the Insurance Contracts Amendment Bill 2011. In speaking to this bill, I would like to make a few points about the legislation itself and the events that gave rise to it. The coalition, along with the rest of Australia, watched on in disbelief in early 2011 as a series of tumultuous weather events hit Australia. It was a reminder to us that we live in a nation of searing droughts and flooding rains and that, as a nation, we often feel the full effects of Mother Nature at her most angry.

Members of parliament, including me, lent a hand to friends and strangers alike in the clean-up efforts for both the floods and the cyclones. It was heart-wrenching to see homes and businesses ruined, lives shattered and, tragically, in some cases lives lost. I went to join my friend and colleague Mr Tehan in his community to visit and speak with small business owners in Skipton and to help with the clean-up of a significant house that played an important part in Henry Bolte's early life. The whole town of Skipton had virtually been inundated by floodwaters. Few things could be worse than losing your home or your business. All sides of politics in this place share a common goal of wanting to see these towns and regions get back on their feet as soon as possible.

The coalition never begrudged spending federal money on reconstruction after the floods and Cyclone Yasi. We supported the spending of \$5.6 billion to rebuild the communities and the infrastructure they depend upon. Where we differed from the government was in the levying of a new tax on Australian families in the form of a flood levy. The government and the Prime Minister had already called on Australians to donate their money and to volunteer their time, and they did in droves and they did generously. Australians heard the call loud and clear. We can all recall the TV footage of teams of ordinary Australians shovelling and mopping and removing debris. Sometimes they were even helping complete strangers, but it did not matter. They wanted to help out in this time of great need for people they often had not ever met before.

But then, having voluntarily donated their time and money, the government hit them with a new tax. It is unprecedented in Australia's modern history for a government to beg Australians to donate generously with their money and their time and, after they have done so, to then hit those very same people with a new tax. It is unprecedented but, sadly, it is typical of today's Labor Party. They never lose an opportunity to impose a new tax. It was the coalition which did the heavy lifting to identify \$2 billion of savings that would have allowed the government to fund the reconstruction without increasing the tax burden on all Australians. That was the fiscally prudent thing to do. The reconstruction package, which we welcomed, did not cover all of the financial needs. It did not cover the cost of homes and businesses destroyed by floods. This was left up to the insurance policies of individuals and businesses in affected areas.

Unfortunately, many Australians were left high and dry by their insurance companies. Some people thought they were covered for the water damage to their property, but it turned out they were not covered for the type of event that occurred. There were disputes about the differences between stormwater and flood. There were disputes about different kinds of flood. In my travels to New Farm, outside Brisbane, and to the community of Skipton, I learnt of concerns about the definition of interruption to business in insurance. The causal factor was once put to a business not to have been the floods but an electricity serviceman turning off the electricity. It did not matter that the substation was about to be inundated. This was used as a justification to deny cover.

So the definitions were complex, confusing and did not help consumers to fully understand the explicit events for which they were covered. We were apprised of many examples where assurances were given but proved not to be sustained when the need for support through insurance coverage was called upon and needed most. Those words of assurance proved to be hollow and did not represent what consumers understood to be the cover that they were paying handsomely for. These events showed that clarification and certainty are needed for Australian insurance holders.

The coalition welcomes this move to introduce a standard definition of 'flood' and a key fact sheet on insurance contracts. It would be surprising if we did not support these reforms since they were the coalition's idea. Last February—fully a year ago—at the Queensland Media Club, my friend and colleague the shadow Treasurer laid down seven key reforms that were required to ensure the confusion and financial loss would never occur again. The first step was to require insurers to communicate clearly to policyholders the terms and conditions under which they are covered for flood or other prescribed natural disasters and the compensation and support they would receive in the event of such disasters. Mr Hockey suggested this could be done via a leaflet in the annual policy renewal. To their credit, the government have tried to achieve this through the key fact sheet proposal embodied in this legislation. Unfortunately, they have omitted crucial information from this bill, a point which I will return to in a moment.

Mr Hockey outlined a second step, which was to improve national flood-mapping data. This would allow the insurance industry to better assess and price flood risk. The need for this national flood-mapping data has become even more evident since the time of the floods. In my own community, on Melbourne's Mornington Peninsula, we have a number of watercourses—Kananook Creek and the wetlands—in the vicinity and they have long been a source of great pride for our local community. Now, and it is quite unexplained, those attributes and assets are being held out as a justification for astronomical increases in insurance renewals. A constituent of mine, Dianne Tame, is one of the residents affected and she and a number of her neighbours in Clovelly Parade, Seaford have been subjected to tenfold premium increases on the basis of alleged new flood risk. When contacting her insurer she was told that the flood mapping that was used and was relied upon was provided by the local council. Concerned about this, Ms Tame and her neighbours contacted Frankston City Council, only to be told, 'What a load of codswallop.' The area in which they lived had not been identified by the local authority as being flood prone and there was no information to suggest that it had at any stage in the past been—or would in the future be—declared as such and the source of the declaration or evidence or information being relied upon by the insurance company had not been provided by them. We have gone back to the insurance company to pose the question about how they did arrive at their designation of this particular area as flood prone.

A similar episode has happened up in the Goulburn Valley area, and I wonder whether this is a tactic of some insurers seeking to price themselves out of the market so as not to carry the risk of this kind of insurance into the future. It still remains a mystery how areas of the City of Frankston have been designated as potentially likely to face inundation when there is no such evidence to support such a conclusion. We will continue to pursue that to find out just where this information has supposedly come from.

The third step that Mr Hockey outlined was to require local councils to review the appropriateness of construction of homes and businesses in flood- and fire-prone areas. What is required is better land-use planning. The fourth reform was to request the Council of Australian Governments to review building standards with a view to making buildings more resilient to natural disasters. We have gained many insights into the robustness of building styles, designs and construction techniques as a result of these very challenging experiences of late. Step 5 was to raise community awareness, with governments to coordinate the issuing of regular reminders of the risk to all households and businesses in flood- and fire-prone areas, and also to develop and issue flood and fire action plans to at-risk households and businesses.

The sixth reform was to require state governments to mandate that all sellers of residential and commercial property include advice as to the risk of flood, fire and other natural disasters in the sale documents. And the final step was to investigate investment in new or upgraded dams or levees to provide additional contingency mitigation from the effects of flood. This should consider the additional benefits of dams as storage for urban, agricultural, manufacturing and mining water supplies and as a source of low-emission power.

These are constructive steps that could readily be adopted by the industry and by the various tiers of government. They would go a long way to avoiding the uncertainty faced by many Australian insurance holders in the aftermath of natural disasters. Most importantly, they are crucial steps in managing the risks to ensure random events such as floods have less of an impact on the financial standing of households and businesses. They also add to the evidence base against which insurers can price risk and therefore offer competitive insurance policies to the Australian public. The risk of overpricing risk is that the insurance coverage becomes too expensive so fewer Australians would take out this important protection of their financial and property interests.

This bill is an example of a government that has finally found religion on coalition economic policy—and I wish it would happen more often on issues such as debt, deficit and banking reform. While the coalition is supportive

of the principles of this bill, we believe it is deficient in two respects. Firstly, it has taken 12 months to finally bring this important legislation before the House. This is too slow. In that time we have seen another round of floods in Queensland and New South Wales. Households and businesses in the affected areas would have slept easier at night if they had had an answer and some assurance on these reforms.

The second shortcoming is that there is no standard definition of 'flood' actually in the bill. The definition will be contained in regulations yet to be made. The Assistant Treasurer has issued an exposure draft of the regulations regarding the standard definition of floods, but the final definition is yet to be released. There can be no parliamentary scrutiny of the definition. Members of the House voting on this bill are being asked to take it on trust that the definition will be adequate. Members who represent flood-prone seats cannot provide absolute assurance to their constituents that the government has got it right. The absence of a definition creates more uncertainty. This is counter to the intention of the bill, which is to reduce confusion and to ensure policy holders have an understanding of what they are covered for and, perhaps even more importantly, what they are not covered for. Instead of providing certainty, the government has created uncertainty.

A further shortcoming of this bill is that key information about the key fact sheet for insurance contracts is yet to be disclosed. For example, we do not know if all insurers will need to provide a fact sheet for new policies, or whether it only has to be provided when specifically requested by the policyholder. Again, the missing information will be contained in the regulations. To make a particular point of this, I note that the Treasurer issued a discussion paper on the key facts sheets provisions on 29 February 2012, with submissions closing on 23 March 2012. Yet here we are, on 13 March, being asked to debate and make a decision on the legislation without key facts and supporting information that go to how this bill will actually work. In many ways the success of this reform will be determined by the crucial details which are yet to be announced. I have touched on earlier examples where, even where the definition of flood is known, the interaction with other provisions impacting on insurance policy coverage and the protections being purchased needs to be teased out in more detail. Interruption of business insurance is expensive, but to find it cannot be relied upon when needed comes as a great additional shock to the many small business people I have spoken with since these natural disasters.

Overall these are sensible reforms. However, they should have been more timely and more of the crucial detail should have been contained within the legislation. Notwithstanding these shortcomings, the coalition will support this bill. We hope that the government can be true to its word and that the detail yet to be provided is consistent with the ambition and the statements the government made when introducing this legislation.