

The next natural disaster season

Client Conversation Guide



It's just over a year ago that the terrible summer of bushfires started in Australia. As communities continue to rebuild, experts are again urging people to prepare.

Australia's Bureau of Meteorology and New Zealand's Institute of Water and Atmospheric Research have stated the coming months are expected to bring above-average rainfall across Australia and New Zealand due to a La Niña weather formation.

Unfortunately, the risks are not reducing - as the severity and frequency of storms is increasing, many small businesses are also looking to reduce costs due to lower revenue as a result of COVID-19. These businesses may be less able to recover from the impacts of further loss of trading due to severe weather damage and business interruption.

It's important to speak to your clients about their cover as we head into the weather-event season and remind them of the important support we can provide our communities during emergencies and disasters.

The 2019–20 summer period

- The 2019–20 summer period was **Australia's worst natural disaster season on record**. Climate change is the most significant risk to the natural environment and its impact on communities and economies is vast.
- Record-breaking temperatures and months of severe drought fuelled **an unprecedented number of fires** burning across five states, starting from September 2019 through to February 2020.¹
- Last year featured storms across the Australian east coast, floods in QLD and NSW, hailstorms across ACT, VIC, NSW and QLD, and cyclones in WA.²

Industry Overview

- Insurers have already paid \$3.85 billion to customers affected by last summer's bushfires, floods and hailstorms, according to industry data released by the Insurance Council of Australia (ICA).
- ICA CEO Rob Whelan said the industry was well ahead of its normal natural disaster response, with more than 83 per cent of bushfire claims already closed.
- The industry had received more than 297,780 claims from four ICA-declared catastrophes during the 2019-20 summer, with losses of almost \$5.4 billion.
- Insurers have spent \$3.85 billion in property repairs and rebuilding works, emergency accommodation and support, replacement of contents, new and repaired vehicles, plant and equipment, and financial settlements.³

What's next?

- **An above-average rainfall** in the upcoming months across Australia and New Zealand due to a La Niña weather formation.
- This upcoming season is predicted as a generally '**normal fire season**'.³ Normal bushfire risk does not mean there is no risk.
- The 2020-21 fire season has different climate drivers than the previous two fire seasons. With a La Niña Alert now active, large areas of eastern and northern Australia are expecting **wetter than average conditions through spring**.
- **The 2020-21 season is already underway with unexpected and unseasonal snow, wind and storm events in TAS, VIC and NSW in July and August.**

Event Types and Trends YOY

Whilst we consider the 2019-20 season was the worst year for bushfires and hail versus previous years, with the confirmed La Niña weather forecast for the coming spring/summer it is vitally important customers understand their risk.

Vero's experience in recent years reflects that the risk of a significant weather event impacting a small business is increasing:

- In our overall commercial portfolio, event and natural hazard related claims have **increased by 50%** since the 2017-18 event season, with more and more weather events being treated as an insurance event, suggesting the size, impact and cost of individual events is growing and therefore the risk to small businesses is growing at a similar rate.
- The 2019-20 fire season **saw a 500% increase in bushfire claims** over the average for the prior two seasons - the increasing spread of the population into regional locations is seeing more and more customers exposed to this risk.
- The Townsville monsoon event alone saw more flood claims than the remainder of our commercial portfolio combined for the last three event seasons - **four times as many** as any other year in recent times. A major rain event in any location can have a significant flood risk and impact for businesses in that region and we estimate that a large majority of customers do not appreciate their flood risk and do not take out suitable cover.
- **Major hailstorms** are occurring with increasing frequency with the number of claims **having more than doubled since 2017-18**. Like bushfires, previously remote locations can now see significant property at risk. Cities and major regional locations can see significant damage and interruption to business as was experienced with the ACT hailstorm last financial year. Businesses may not appreciate their risk of impact by the event, but in many cases also do not understand the impacts the current condition of their properties will have in determining the amount of damage that can be claimed under their policy.

Learnings from the 2019-20 Natural Disaster Season

There are some important elements to consider to avoid underinsurance.

It is difficult to quote a rate of underinsurance as it can vary greatly based on geographic location, the nature of a business, whether the customer has utilised a broker or other representative in assessing their risk or where a claim was not lodged or did not proceed and their cover was not assessed.

In the recent bushfires, it was estimated there were 10% and 25% rates of underinsurance, possibly higher. However, where a customer uses a broker to assist with their cover, underinsurance is less frequent and they are 22% more likely to rate their claim experience satisfactory if they use a broker.⁴

It is important to consider assessing the risk of things outside the immediate business operation and location and consider how resilient the business is if there is impact to their location, access to their location, their customers and suppliers and the locations of those customers and suppliers etc.

Business interruption cover

- Many of the businesses unable to trade due to the bushfires did not have Business Interruption Cover included in their policies.
- Some customers also underestimate their revenue unknowingly or in order to reduce their insurance premium.
- Business interruption has specific triggers e.g. physical damage to the property.

Loss of attraction

- Businesses without physical damage, once access was no longer restricted, and could trade, suffered from a “loss of attraction”, as the same visitor numbers and customers simply did not come.
- Some businesses were not aware this wasn’t a continuation of their ‘business interruption cover’ and did not recognise the difference between loss of attraction and business interruption as defined under their policy.
- The largest proportion underinsured in these regions were accommodation and food services, and small and seasonal businesses impacted during their peak trading period compounding revenue loss.

Property and stock are also frequently underinsured

- Many small businesses suffered a total loss of stock and this stock was underinsured, so they were unable to recover the full value of their stock.
- Businesses who purchase insurance through a broker receive advice around appropriate cover when they purchase their policy, including in the event of a natural disaster. Generally, underinsurance is less frequent for this cohort of customers.

Vero Claims and Customer Support

We're proud to say Vero delivered an industry-leading claims response to the 2019–20 summer of natural disasters.

On-the-ground support

- Our Customer Support Teams, were deployed to bushfire-affected communities as soon as it was safe. The teams provided face-to-face support for customers, helping them to lodge their claims, as well as access to emergency funds and temporary accommodation.
- After damaging hailstorms in Australia (Melbourne and Canberra) and New Zealand (Timaru), we established dedicated assessment centres, with both assessors and specialist repairers on-site to make the repair process as efficient as possible for our customers.

Resolving claims quickly

- We worked hard to quickly resolve claims, engaging local trades and suppliers to rebuild homes and businesses, and injecting crucial funds into impacted communities.
- At the peak of the response, the Melbourne centre was assessing more than 500 hail-damaged vehicles a day.

Supporting vulnerable customers

- An important part of our event response is also to identify our most vulnerable customers and ensure they have the right level of support from the start.

Resilience infrastructure

- Suncorp believes investing in resilience infrastructure will reduce the impact of natural disasters, resulting in safer communities, stronger economies, and a more sustainable insurance industry.
- Government investment in natural and public resilience infrastructure can have a real impact on insurance affordability. For example, following construction of the flood levee in Roma, QLD, Suncorp customers received premium reductions of up to 90%.
- Suncorp also advocates for other measures that improve the resilience of communities, including:
 - Greater investment to strengthen natural disaster resilience of existing buildings and homes.
 - Changes to planning laws to reduce construction in high-risk areas and requiring improved resilience measures for new construction.
 - Making insurance more affordable by removing taxes and duties from property insurance policies

Vero's Response

Digital claims for commercial property and specialty motor

Vero has launched digital claims lodgement for Commercial Insurance, because a quick response in this environment is more essential than ever.

Lodge a claim online >

Vero natural disaster guides

The most important step in disaster preparedness is ensuring you have the right policies in place for individual or business needs, but there are lots of other risk mitigation strategies you can take too. Learn what to do before, during and after a natural disaster with our tailored guides.

Access the guides >

Preparation suggestions for your customers:

- ☐ Assess if they have the right insurance in place.
- ☐ Check flood exposure.
- ☐ Review policy exclusions, especially flood.
- ☐ Do they have business interruption cover?
- ☐ Consider if their suppliers might be affected also.

For more information visit vero.com.au

¹ www.bloomberg.com/graphics/2020-australia-fires

² <http://www.bom.gov.au/climate/cyclones/australia/>

³ [www.insurancecouncil.com.au/assets/media_release/2020/270820%20\\$3.85billion%20already%20paid%20in%20natural%20disaster%20claims%20as%20insurers%20overcome%20pandemic%20upheaval.pdf](https://www.insurancecouncil.com.au/assets/media_release/2020/270820%20$3.85billion%20already%20paid%20in%20natural%20disaster%20claims%20as%20insurers%20overcome%20pandemic%20upheaval.pdf)

⁴ Vero SME Insurance Index 2020.

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