

Economic Management of Disaster Resilience and Recovery: Remedying the Insurance Problem

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Australia, like most of the world, has endured an increased number of catastrophic weather related disasters, which have significant economic implications. The economic implications are rife, particularly in relation to inadequate insurance coverage amongst many members of society.

This trend has been particularly prevalent in household property and contents insurance and has been worse amongst those from lower socioeconomic backgrounds. Individuals who fail to have adequate insurance must bear the economic implications of the loss. Although some governmental assistance is available and there has been a trend towards a large proportion of public benevolence, this is an unsustainable economic resolution.

The economic implications are long-term, in that it takes years to recover from such events. Many of those in Australia who suffered severe property losses arising from Black Saturday in Victoria in 2009 are only now realizing the long-term implications of inadequate financial and economic considerations concerning individual property and disaster recovery. The prevalence of caravans, shipping containers and other makeshift homes display the human face of inadequate economic planning coupled with insufficient insurance coverage.

Similarly, of those who had their properties inundated during the Queensland flooding of December 2010 through January 2011, many were unaware of the parameters of their insurance coverage and the likely long-term economic repercussions they would face. In particular, many will have their welfare affected and may be thrust into a cycle of poverty.

Who Bears the Losses?

There needs to be a greater push towards promoting a long-term disaster resilience and loss mitigation regime. Currently, only about 25% of the total losses from a natural disaster are borne by the insurance industry, with the rest being borne by individuals and the State. The question is, how can individuals continue to absorb such massive economic losses? Part of the problem arises out of the mentality which focuses upon recovery rather than mitigation.

The deeper question is then how to become disentangled from the existing spider's web of current regulatory thought, and push towards a future where economic planning for disasters become an accepted and necessary part of the emergency response and planning paradigm. How should society go about attaining adequate levels of insurance coverage?

Possible Resolutions

For workability purposes, it is essential that there is greater cooperation between all of the stakeholders involved in emergency management. Part of the program of these agencies should be educative so individuals are aware of the best way to safeguard their economic interests from potential resultant losses and encourage greater levels of insurance coverage. The most viable option to immediately boost insurance coverage as part of the economic mitigation safeguarding is to incentivise resilient properties through a marked reduction in insurance premiums.

■ *Incentivising Changes: cooperation between the insurance industry and the people.* The insurance industry should work with emergency managers

and society to improve property resiliency to known weather related disasters. Emergency managers can work with the insurance industry to educate the public more generally about the realistic outcomes to individuals of inadequate economic safeguarding, should a catastrophe occur.

An example of this can be seen if individuals living in high fire danger areas are encouraged to install sprinkler systems. Although the initial cost may be sizable for a consumer, perhaps a substantial amount of this cost can be offset against a reduction in insurance premiums over a five-year period so that individuals can see a tangible outcome of their mitigation attempts. Ultimately, the economic benefits derived from this are likely to flow to the consumer, the state and the insurer in the time of an emergency, through an overall reduction in the property losses. Anecdotal evidence seems to suggest that consumers are likely to favor such an approach.

■ *The Future: an era of sustainable economic management for disaster resilience and recovery.* Although traditionally catastrophic events have been high-intensity, low-probability events, in modern society the eventuation of a catastrophic event is no longer unforeseeable. Therefore, we must create an enabling environment that facilitates effective economic management as part of the risk-sharing regime. Insurance should be the key mechanism which is employed as a means of financing disaster and creating sustainable economic management for household property and contents losses resulting from catastrophic weather related disasters. Furthermore, planning must shift from a disaster recovery paradigm to one of resilience and mitigation.