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Australian Natural Disaster Insurance: Challenges and Risks

While there has been a general acceptance that the Australian private insurance market has been able to meet the challenges posed by natural disasters over the years, recent events have highlighted the alarming deficiencies in the existing market, prompting cries for the establishment of a National Natural Disaster Insurance Program.

In view of this, the Australian Centre for Financial Studies (ACFS) has commissioned a paper titled 'Natural Disasters and National Natural Disaster Insurance: An Australian Perspective' by Prof Andrew Worthington of Griffith University, with the aim of providing an extensive review of Australia's current activities in response to natural disasters.

This paper examines the primary challenges and hazards facing the Australian Insurance industry by exploring the past and current state of disaster response options. Comparisons are drawn with other international natural disaster insurance programs, such as Japan, Spain, France, United States, New Zealand, and Turkey. The report assesses the feasibility of establishing a national natural disaster program in order to address the deficiencies in the existing private insurance market.

Though deficiencies in the form of misunderstanding and inconsistencies often exist, Prof Worthington argues that there appears to be little justification for the implementation of a national disaster program in Australia. Factors that further support his conclusion include:

- Availability and affordability of property insurance in response to natural disasters;
- Significant costs and uncertain benefits with the program; and,
- Uncertainty around the impact of moral hazard and adverse selection in household decision making and behaviour.

Prof Worthington further adds that "better programs include a very specific role for government, mostly as a reinsurer, with close relationships developed between governments and insurers. "

The full report is available via the Australian Centre for Financial Studies' Research Database which can be accessed via: <http://www.australiancentre.com.au/Research/ResearchDatabase>

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