

The Sydney hailstorm: the insurance perspective

The hailstorm

During the early evening of April 14, 1999 a severe hailstorm swept north across the eastern edge of Sydney causing extensive damage to homes, businesses and vehicles. Hailstones up to 9cm in diameter were reported. The hailstorm occurred within a thunderstorm that formed to the South of Sydney and effected almost the entire eastern seaboard suburbs of Sydney.

The maximum hailstone size, the resultant damage, the season and timing of the storm occurrence, as well as other circumstances associated with the storm development made this event exceptional.

Much of the hail was similar in size to tennis balls. One report suggested that the amount of hail that fell on Sydney during the storm was of the order of 500,000 tonnes. The thunderstorm was accompanied by strong winds and rain. The latter being a major cause of loss due to water damage to internal linings and contents of dwellings.

Following its development about 150 km south of Sydney, the initial storm cell moved northward parallel to the coastline and mostly over the sea, only to change its track slightly inland south of the metropolitan area and to strike the coastal suburbs of Sydney at about 8pm. The major storm cell located over the south-eastern suburbs of Sydney was followed by a second storm, which passed over the city two hours later.

The April hailstorm occurred at a time of year characterised by low hailstorm activity. Most hailstorms in the Sydney area can be expected during the months of late Spring and summer, while the maximum monthly hailstorm frequency is usually reached during the month of November.

Moreover the storm developed very late in a season that was marked by a substantially below normal number of hailstorms, and occurred very late in a day that was not marked by any extremely unstable atmospheric conditions.

The damage

While it is still too early to report on the final outcome of the insured loss, our current estimates have revealed that some 43,900 residential claims for building and

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contents have been submitted for an estimated payout of \$422 million. Motor vehicle damage has been substantial with some 61,700 claims being reported for an estimated payout of \$409 million. In addition, commercial claims for retail and industrial property damage and business interruption claims total 5,810 claims for an estimated payout of \$413 million. There are claims for damage to

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aircraft which are in the order of \$100 million and some 60 marine craft were damaged which will produce claims totalling around \$300,000.

Overall this event has produced insured claims in excess of \$111,500 and we are confident that the overall insured loss will exceed \$1.5 billion.

The total damage to public buildings is estimated at \$45 million with the principal damage being:

- Department of Housing: \$15 million
 - Department of Education : \$ 9 million
 - Department of Health: \$ 5 million
 - State Rail Authority: \$10 million
- (48 government schools suffered damage in the storm)

While there is no question that the Sydney hailstorm of April 14, 1999 now figures as the largest insured event in our industry's history in terms of the total number of claims produced and the

expected payout of in excess of \$1.5 billion, it must be remembered that if all of the damage caused by Cyclone Tracy in Darwin in 1974 had been insured with the insurance industry, that event would continue to hold its place as the most significant natural disaster. Some 10,000 homes were totally destroyed in Darwin as well as some 10,000 motor vehicles. While our industry paid out a loss of about \$900 million in today's values, the loss to Commonwealth Government property including government houses was many times that figure.

Hailstorm disaster response and recovery

The New South Wales Government declared the event a disaster and established a State Disaster Recovery Coordination Committee to bring together the key agencies and non-government organisations. These included:

- Premier's Department
- Treasury
- Departments of Community Services, Housing, Public Works, Fair Trading, Office of Emergency Services
- Effected local Councils, principally Botany, Marrickville, Randwick and Woollahra
- Insurance Council of Australia
- Members of other non-government organisations such as the Master Builders Association, Housing Industry Association and small business.

The Government opened a Disaster Recovery Co-ordination Centre as a 'one stop shop' at Randwick Racecourse to assist residents effected by the storm particularly elderly residents and those from a non-English speaking background.

The emergency response effort immediately following the hailstorm resulted in the deployment of over 200,000 tarpaulins at a value of some \$10 million, over 280,000 sandbags and 9,600 km of rope, safety equipment, hardware tools and equipment hire worth over \$2 million.

In the initial response period over 44,000 calls for assistance were attended to involving around 20,000 premises. In the first four days alone over 4,000 houses were covered with tarpaulins (taped).

The government agencies and chari-

table organisations that participate in the NSW Disaster Plan have already expended some \$50 million in responding to this event, that figure is most likely to grow.

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Some interesting issues developed in the response phase. For example many of the Rural Fire Service volunteers had never been to Sydney before and were working in an environment ie. densely populated suburbs, with which they were completely unfamiliar.

The number of people engaged in the response was huge:

- NSW Rural Fire Service Volunteers: 5,006
- NSW State Emergency Services: 2,500
- NSW Fire Brigades: 2,850
- NSW Parks and Wildlife: 750
- NSW Ambulance Service: 699
- Australian Army: 650

(These numbers include those from country NSW and interstate.)

These emergency response personnel although extremely highly trained in storm damage response, had to operate under extreme climatic conditions. During the actual thunderstorm and in the weeks following the high impact area of southern Sydney experienced driving rain and very high winds averaging 40 knots but gusting up to 100 knots.

The recovery

On April 23, 1999, the Minister for Emergency Services established the Southern Sydney Recovery Task Force to undertake the recovery phase of the relief effort. The overall objective of the task force is to facilitate and coordinate recovery works for all properties damaged by the hailstorm as quickly and efficiently as possible.

This involved:

- prioritising households according to the degree of damage and household status and directing resources to deal with the most needy cases first;
- providing weatherproofing and essential power to uninsured properties;
- facilitating and coordinating recovery works of insured properties according to priority; and
- working with industry to improve the supply of critical materials and resources.

The Task Force has substantially completed a thorough process of visiting all known effected properties and veri-

fying data supplied by State Emergency Services. As a result of this process the Task Force has currently identified 20,831 residential properties effected by the storm. Detailed information on each property is held and maintained in an electronic database. Recently, to complete the verification of the database, a comprehensive aerial survey was undertaken and aerial photographs have been reviewed to monitor progress and identify properties not kept in the database through the household visit process.

Roof repairs have now been completed to more than 81% of the effected properties. The vast majority of these repairs have been repairs to insured properties where the Task Force has carried out a facilitating and coordinating role.

Urgent electrical repairs have been addressed using the resources of Energy Australia and the National Electrical Contractors Association (NECA). To date, 1715 properties with unsafe electrical problems have been made safe.

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Roofing materials and labour

The high impact areas, which comprise the suburbs of Botany, Marrickville, Randwick, Southern Sydney, Sutherland, Waverley and Woollahra, are older, relatively affluent, medium density suburbs. Houses in these areas, most of which pre-date the 1930s with some being turn of the century and older, are predominantly roofed with terracotta tiles, while many of the older industrial buildings have asbestos fibre-cement roofs. Both of these materials are very brittle and perform poorly under the impact of large hail. As a result most buildings in the severe hail effected areas suffered significant roof damage with consequent water damage to contents.

The amount of roofing material needed to weatherproof the damaged properties is staggering. For example about 12 million

terracotta tiles are required equal to about 1 million square metres. Terracotta tiles are the predominant roofing material being of the order of 72%. Concrete tiles make up 13%, metal roofs 11% and slate tiles about 4%.

The duration of the recovery works will be principally governed by the capacity of industry to supply terracotta tiles, slate, roof tilers and slate fixers. The Task Force has continued regular discussions with the main roof tile manufacturers (CSR and Boral) the Master Roof Tilers Association, Slate Importers and Slate Fixers to improve the supply of resources.

Terracotta roofing work was initially completed using tiles supplied from the stockpiles maintained by the major suppliers, which were very quickly depleted, and more recently from accelerated production at plants located in both NSW and Victoria.

Recent supply has not satisfied demand, lead times for tiles has increased to 8 weeks, and some suppliers have taken steps to import tiles from elsewhere. For instance CSR made arrangements to import 2 million tiles from Western Australia and a similar number came from Victoria.

Although comprising only 4% of the damaged roofs, the need for an abnormally large quantity of slate to be sourced and then imported from overseas, mainly from Wales, threatens to prolong the recovery effort well into 2000.

The Task Force has identified 23 slate roofing companies that are currently working in the hail-effected area with a workforce of some 100 slate fixers including tradesman from Queensland, Victoria and the United Kingdom. About 95,000 square metres of slate roofing needs to be repaired.

Many of the monumental buildings such as government building, churches and schools in the area have high angle slate roofs and there are some 700 houses with slate roofs that have been hail damaged.

Damage to motor vehicles

Because of their older nature, many of the dwellings have limited or no space for garaging cars undercover, resulting in a high proportion of vehicles being parked on streets. In the affluent suburbs many of these vehicles were of relatively high value. Most of the uncovered vehicles in the severe hail effected area were damaged with broken rear windows (toughened glass), cracked or broken front windscreens (laminated glass), and denting of the metal bodywork.

The main motor vehicle insurers established storm damage assessing centres to enable motorists to obtain drive-through assessments. These special centres were very effective in removing the storm claims from the normal workflow and speeding up the assessment process.

Assessing and claims staff came from as far afield as country New South Wales and all other mainland states to contribute to the task of managing the volume of claims that followed rapidly on the heels of the storm. In one case assessors saw a car roof where the steel had actually been split by the force of the hailstones.

Written-off vehicles, which accounted for some 25% of the assessments, were disposed of through auction centres and although the incidence of suspected fraud cases of manufactured hail damage was as high as 10% in the first week following the hailstorm, this figure dropped to 1% three weeks later following public warnings, media coverage and a high level of detection. Notwithstanding that, fraudulent claims have amounted to many millions of dollars, the most serious of which have been referred to the NSW Police Commercial Crime Agency.

Insurance Council of Australia's role

ICA implemented its normal disaster response role the morning after the hailstorm and attended to a large number of media inquiries, and assisted State Government Departments and Agencies as a member of the NSW Disaster Plan.

ICA advised the Premier and the Minister for Emergency Services on the response they could expect from insurance companies, and was invited to, and joined, the Government's Hailstorm Recovery Co-ordination Committee and the Southern Sydney Recovery Task Force.

Industry meetings of claims managers and loss adjusters were held on a regular basis and several special meetings were conducted to enable the CEO and his senior officers of the Southern Sydney Recovery Task Force to brief the industry on project management issues being facilitated and coordinated by the task force.

ICA's role will continue well into the year 2000 because there is a determined effort to have all but the most serious or difficult residential cases finalised before the start of the Olympic Games. However, some of the major insurance companies have indicated that their time lines extend out to between 3 and 5 years. It must be remembered that there is a continual

inflow of new claims and this event has a substantial IBNR¹ (Incurred But Not Reported claims) factor involved.

Insurance Enquiries & Complaints' role

The Insurance Enquiries and Complaints Ltd (IEC)² became involved in the very early stages and supplied a representative to attend on a daily basis at the NSW Department of Community Services 'one stop shop' located at the Randwick Racecourse. This assisted people who were making inquiries about their insurance even to the point of simply finding out with whom they were insured.

A big undertaking for the insurance companies

The Sydney hailstorm came at a time when insurance companies were still attending to claims arising from the series of severe storms and floods that had occurred around Australia, notably Townsville, Katherine and Wollongong. It can be fairly said that the hailstorm has taxed insurance companies' resources as well as those of loss adjusting firms.

In spite of the obvious strain, insurance companies moved quickly to establish their response under their own internal disaster plans. Typically these disaster plans saw the deployment of staff and resources to special operation rooms, the development of special public relations response, purpose designed communication strategies to assist their customers, intermediaries and their own staff, the briefing of strategic partners such as loss adjusters, builders and consultants etc., the establishment of special IT resources (a very critical element in any disaster plan) and the establishment of liaison lines with ICA and the rest of the insurance industry.

Some of the issues that insurance companies had to immediately find solutions to were:

- repair versus replacement
- materials matching
- alternate repair methods
- resource issues
- fraud: insurance companies had to contend with compliance issues. For example:
 - very few of those insured who brought in their own contractors verified the credentials of the contractors;
 - very few contracts were in place for damage above the compliance minimum of \$200
 - there were numerous breaches of

the 'Home Owners Warranty Scheme' for work above \$5,000;

- there was non-compliance of the prescribed payments system;
- there were many cases of local governments not being approached for development consent.

Insurance companies were concerned with the capacity of contractors. It seems that contractors were driven by the need to maximise work and simplify repairs. This meant that contractors were endeavouring to replace rather than repair; in other words quoting to repair but costing on replacement. There were many cases of inadequate description of work to be undertaken and numerous examples of work being included in a quote that was unrelated to the damage.

Repair quality was impacted by three elements:

- non recurring work
- short term opportunities
- owner's inexperience

In the latter respect a lot of homeowners are exposed to quality issues if under duress and inexperience.

One of the causes of complaints from owners was the fact that some repairers were causing further damage, for example to landscaping, which may have been undamaged and or not insured.

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Notes:

1. IBNR stands for 'Incurred But Not Reported claims'. It is an essential element in an insurance company's estimation of its future liability for a claim or series of claims. For example, a house roof may have suffered damage in a storm but the householder did not know about the damage until the roof started to leak some time later. A claim is then submitted. Based on experience, most insurance companies would allow for an IBNR of 20% or more depending on the class of business. Liability insurance has a much higher IBNR factor because of the so-called long tail to the claims.

2. The IEC is the Insurance Enquiries and Complaints Ltd a company established by ICA and the industry to provide consumers with access to alternative dispute resolution at no cost and also to deal with general enquiries about insurance.