

# CATASTROPHE INSURANCE: YOUR QUESTIONS ANSWERED

*At Honan, we often receive queries from strata management and owners' corporations wondering if they have cover for catastrophic events when catastrophe cover has not been selected in their insurance policy. It is a common misconception that cover will not extend to any catastrophic event without this section of cover selected. In this article, we break down all things Catastrophe Cover, including the classification of a 'catastrophe', how catastrophe insurance works, and how you can secure coverage.*

## HOW IS A CATASTROPHE DEFINED?

While it is common to refer to large weather events as 'catastrophes', the formal insurance definition of a catastrophic event is: "an Event which is sudden and widespread and which causes substantial damage to property over a large area, and as a result of which the Insurance Council of Australia issues a catastrophe code".

In simple terms, if the Insurance Council of Australia (ICA) does not declare a specific event a catastrophe, then it is not classed as one, regardless of the extent and reach of the damage caused.

## HOW AND WHEN DOES THE ICA DECLARE A CATASTROPHE?

The Insurance Council of Australia will typically declare a catastrophe (CAT) after an influx of claims resulting from an extreme weather event or a natural disaster such as a storm, hail, flood, bushfire, cyclone, etc. Earlier this year, the ICA declared a CAT code [CAT202] for the devastating storms and floods in NSW and QLD. Other examples include the recent WA bushfires, North QLD cyclones, and even certain hailstorms that cause damage to motor vehicles across entire metropolitan areas.

## WHAT DOES CATASTROPHE INSURANCE COVER?

CAT cover provides an additional level of protection in the event your sum insured is insufficient due to the increase in costs to repair or replace the damaged property and the longer repair period (due to the high demand for supplies and services caused by having so many people accessing them at the same time).

If in place, catastrophe cover is only activated when the building sum insured is exhausted, and a CAT is formally declared by the ICA. CAT cover is an opt-in cover that will provide either a 15% or 30% increase (dependent on the level of cover selected) in the sums insured for the following covers:

- building sum insured
- an extended period of cover for Loss of Rent
- an extended period of cover and escalation in the cost of Temporary Accommodation
- removal and storage of undamaged insured property
- cost of evacuation for resident lot owners.

While CAT cover will assist during a Catastrophic event if you have it in place, it is important to ensure your building sum insured is adequate. The building sum insured should always be sufficient to allow for the building to be reinstated to its condition prior to the insured event, including all associated costs (e.g., the value of demolition work, removal of debris, surveying, engineering, and architectural fees, etc.). A professional valuation of all insured property should be obtained by a certified valuer where possible.

## DO I NEED IT?

This additional cover is beneficial for Insureds living in natural disaster-prone areas (e.g., areas prone to bushfires and floods). If you are unsure about your exposure to these risks, some useful resources to gain a better understanding are as follows:

- Your local council will have mapping available to help you identify potential risks such as floods, bushfires, etc in your area.
- Your most recent property valuation may provide some commentary about the risks nearby.
- Contact Honan – we can utilise our internal resources or access our insurer partners' flood mapping to help you understand your risk.

## HOW DO I GET IT?

As noted above, CAT cover is in addition to your building sum insured and responds when your property is deemed a total loss from a declared CAT event. The CAT sum insured is calculated as a percentage of your building sum insured, usually 15% or 30%. This cover can be added to your policy for an additional premium.

## WITH YOU ALL THE WAY

Feel free to reach out to learn how your owners' corporation may be impacted by a catastrophic event and what this means for you.

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