

MEDIA RELEASE

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INSURANCE INDUSTRY TELLS B.R.C. DISASTER RELIEF IS BAD FOR BUSINESS

More than a year after the Black Saturday bushfires devastated Victoria, a submission to the Bushfires Royal Commission on behalf of the Insurance Council of Australia has complained that post-disaster assistance “is a potential cause of non-insurance” and that government or community funded help “reduces the benefits of taking out insurance”.#

Denis Nelthorpe from the West Heidelberg Community Legal Service said that the ICA’s position was just one example of how out of touch the insurance industry is with the needs of low and lower-middle income families. In giving evidence before the Commission today, Mr Nelthorpe said the industry’s campaign to remove the fire services levy from premiums would do little to encourage Victorian families to obtain insurance.

“I believe that the limited premium payment arrangements, unsuitability of insurance products to consumer needs, misunderstanding and negative experience of insurance products, and lack of personal history of insurance are all factors which have a greater impact on deciding whether or not to take out insurance,” he said.

Mr Nelthorpe said the insurance industry had opportunistically used the bushfires tragedy to revive calls to scrap the fire services levy claiming that this would increase insurance take-up by reducing premiums, while ignoring the fact that most bushfire-affected homeowners already had insurance cover.

“One of the biggest problems facing those who lost their home in the fires has been struggling to rebuild after being told their ‘sum insured’ policy grossly underestimated the cost of replacing their home,” Mr Nelthorpe said. “If the insurance industry is serious about the under-insurance issue, it needs to move quickly to introduce full replacement policies across the board. These eliminate the possibility of under insurance and on average cost around the same as sum insured policies.”

“In 2005, an ASIC* report on the Canberra bushfires said that home owners relied on their insurer to decide how much to insure their home for and that most homeowners ended up under-insured as a result, but to date there are only two insurance companies who offer ‘full replacement’ policies,” he said.

Mr Nelthorpe says the issue hasn’t received much attention in the case of the Black Saturday bushfires because those affected had often received bushfire appeal fund payments, which helped cover any shortfall.

“It’s ironic that the insurance industry has criticised post-disaster assistance when it is taxpayers and community donations that are subsidising their profits because the consumers affected should have been covered by replacement policies in the first place – a fact the insurance industry has been well aware for some time,” he said.

The insurance industry also knows that rebuilding costs escalate wildly after catastrophe events, like was seen after Cyclone Tracy, Cyclone Larry, the Newcastle earthquake and the Canberra and Black Saturday bushfires. Yet the insurance industry fails to acknowledge that most sum insured policies will inevitably result in underinsurance in the event of disaster.

“While any reduction in costs to consumers is always welcome, it is my view that if ‘total replacement’ policies were more widely available and consumers were better informed of their features – including the difference between one off events and catastrophes – this would play a far greater role in effectively combating under-insurance than removing the fire services levy,” Mr Nelthorpe said.

See Dr Richard Tooth’s witness statement prepared for the Insurance Council of Australia

* Australian Securities and Investments Commission, *Getting home insurance right - A report on home building underinsurance, Report 54, September 2005.*

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