

MEDIA RELEASE

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FIRE INSURANCE DEBATE REIGNITED AS ANNIVERSARY APPROACHES

Almost a year after the Black Saturday bushfires devastated Victoria, consumer groups have hit back at the insurance industry's attempts to pressure the Government into eliminating the fire services levy from insurance premiums, blaming insurers themselves as the main culprits behind under-insurance in the community.

Spokesperson Denis Nelthorpe, from the West Heidelberg Community Legal Service, 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 finding out their 'sum insured' policy grossly underestimated the cost of replacing their home," Mr Nelthorpe said.

In 2005, ASIC's* report into the Canberra bushfires exposed how home owners rely on their insurer to decide how much to insure their home for and that most homeowners ended up under-insured as a result but, at February 2009, the insurance industry had done little to move homeowners from these 'sum insured' policies to safer 'full replacement' policies.

"The issue hasn't received much attention in the case of the Black Saturday fires because to date those affected have often received bushfire appeal fund payments, which have helped to cover the shortfall. Taxpayers and donations are subsidising the profits of insurance companies that should have covered these homes for replacement value in the first place, a fact the insurance industry has been well aware for some time."

West Heidelberg Community Legal Service, the Footscray Community Legal Centre and the Consumer Action Law Centre have set out detailed claims against the insurance industry on the fire services levy and insurance in joint submissions to both the Victorian Bushfires Royal Commission and a Victorian parliamentary inquiry on State government taxation.

The groups said removing the fire services levy as the insurance industry wants could potentially jeopardise the future of the Country Fire Authority which it funds, while having little or no impact on levels of insurance.

"The insurance industry's argument is that lowering premiums by removing the fire services levy will mean a greater uptake of insurance. However, the Insurance Council's own research shows that when Western Australia removed the levy, the increase was minimal – around 1%," said Mr Nelthorpe.

"The best way to protect people is for insurers to phase out 'sum insured' policies altogether and only offer 'replacement value' policies. There is no significant price difference between the policy types and the sum insured policies serve no real purpose except to save insurers money if homeowners make a claim."

"The issue of under-insurance isn't only a problem for people affected by bushfires and floods. It's a widespread problem for consumers across Australia but most won't realise until it's too late and they are offered an insurance payout that doesn't come close to covering the costs of replacing their home."

"Groups who genuinely don't have any insurance cover at all tend to be tenants, asset-rich income poor retirees and lower income households. All the research indicates that the best way to tackle this problem would be for insurers to offer different products and more flexible payment options – not merely to remove the fire services levy."

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

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