

NDIR Submission from John Glazebrook

To The National Disaster Insurance Review Panel

Attention: Mr John Trowbridge (Chairman)
Mr John Minto (Member)
Mr John Birrill (Member)

c/- The Treasury
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This submission to the NDIR panel argues that the two (2) insurance models being considered for recommendation are both inadequate and unsatisfactory. I will be suggesting a further third model for consideration. We need a home insurance model with incentives from tax rebates, as well as insurance vouchers, a broader dispute resolution process, that will provide policy holders with real protection against risk and loss or damages in the event of any disaster. Both models under consideration fail this test. Home and property owners, not just businesses, also need to be provided with incentives to take out insurance cover.

Model 1

Model 1 seeks to have flood insurance cover made compulsory in all home insurance policies offered in the market with the option for consumers to opt out of flood insurance should they choose another policy. Model 1 further seeks to offer flood insurance to all consumers automatically, in the event of a natural disaster, but with the provision for insurance companies and consumers to choose an alternative policy. A bit like a "Claytons" insurance policy: compulsory flood insurance is not compulsory. Under this model many consumers and householders may not be adequately insured in the event of a disaster. The dispute resolution process remains unchanged and there is no mention of the need for incentives, like Model 2.

Model 2

This is about no change, but only allows the status quo to remain unchanged; without any compulsory measures or options. That is, insurance providers and consumers continue to decide what policies they will offer or choose. This is the present "laissez faire" model in the insurance industry and market place that has resulted in the financial and insurance chaos following the floods in Queensland, New South Wales and Victoria earlier this year. Insurance companies are all privately operated. There is currently no taxpayer funded competitor in the market. Private companies are driven by commercial imperatives, not equity or community responsibility.

Model 3

Government intervention in the insurance market by providing a national insurance agency that provides competition to the products and policies offered by the market at present, similar to the Medicare concept. This would create real competition in the insurance market, job opportunities in the industry, and encourage the development of improved products and policies. Australia claims to have a mixed economy with some degree of government and private enterprise to maintain balance and stability. Government withdrawal from the insurance market allows complete privatisation of the home insurance industry and the domination of commercial interests. The Assistant Treasurer, Mr Bill Shorten, needs to be reminded that this is nothing more than market idealization; the belief that government intervention is always negative and that private insurers will always allocate resources efficiently, that consumers are sovereign and will always make informed decisions, uninfluenced by propaganda and subliminal advertising. In my view, it is a blind faith in privatisation and “laissez faire” that has contributed to our insurance problems – not just the natural disasters. Model 3 should be developed to set standards in the insurance industry with clear definitions and incentives for consumers to buy insurance.

Models 1 and 2 appear to assume that the existing appeals and dispute resolution mechanism are adequate; not so. Model 3, the interventionist model, would raise the standard of dispute resolution by reforming the appeals process. The present appeals process requires consumers to appeal to the insurance provider, in the first instance, and then, secondly, to the Financial Services Ombudsman’s Office, an office funded by the insurance industry. Failing that, a consumer has to go to a magistrate’s court for a review of any dispute. In my view, the Financial Services Ombudsman’s Office lacks investigative capacity and diversity of representation. A balance needs to be made with the selection of broader range of people, agencies, and individuals involved in the appeals process; not just insurance administrators.

I believe that all the NDIR Panel members should recommend to the Assistant Treasurer, Mr Bill Shorten, that he immediately move to broaden the capacity of the disputes resolution process in the insurance industry. I further recommend that Models 1 and 2 should be rejected by the Panel in favour of Model 3. That a government interventionist model, based on the National Medicare concept, that will restore balance and competition to an industry now dominated by privatisation, “laissez faire” and market idealization. A reform of the dispute resolution process must be included with any new model. I would be prepared to participate in or attend any meeting with your Panel to discuss further details for this submission.

Incentives.

All businesses are able to claim the cost of their insurance premiums against their tax liability in any financial year. This policy needs to be extended to all home and property owners, not just to business people. Home and property owners who are not required to pay tax, such as pensioners, should be compensated by the government with an insurance voucher that they could put towards the cost of insurance with a company of their choice. Government taxation policy is at present biased in favour of tax breaks for business, not home and property owners. The dispute resolution process will not be reformed without an interventionist model to set higher standards and provide incentives for competitors to do the same.

Sincerely

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