

National Disaster Insurance Review Panel  
The Chairman  
John Trowbridge  
C/- The Treasury  
Langton Crescent  
Parkes  
ACT 2600

Dear John Trowbridge,

Our submission summary is as follows:

1. Home and contents insurance should be compulsory.
2. State taxes and levies be removed to make insurance more affordable.
3. Businesses must have adequate insurance cover.
4. Total Replacement Value Policies must be provided by all insurers.
5. Lenders are compelled to ensure mortgagees maintain home and contents insurance.
6. There should be automatic flood cover.
7. Identifying homes with high flood risk.
8. Discounts should not be provided to some or all of these home owners. This is inequitable.
9. If discounts are to be provided (which we strongly oppose), State Governments should fund them.
10. Mitigation measures are taken by all levels of government. This may also include buybacks and prohibiting further development in flood prone areas as well as more stringent building codes.

Vincent & Judy Mahon

### **1. Home and contents insurance should be compulsory.**

If moral hazard is to be reduced this is important. The Canberra bushfires, the Victorian bushfires and the floods this year in Queensland and elsewhere, have shown there are homeowners uninsured and also underinsured.

To date evidence based assessment to determine the extent of this has been lacking. Jack Rush QC, Counsel Assisting the Victorian Bushfires Royal Commission in his submission "Insurance and the Fire Services Levy" stated, "Definitive evidence of the extent to which Victorians are uninsured or under-insured is lacking. It is sufficiently clear, however, that a proportion of homes are not covered by building insurance and that a much greater proportion of households do not have contents insurance."<sup>1</sup>(attached)

Government of all persuasions have continually provided relief payments for home and contents to those who choose not to insure and also be deliberately underinsured.

Whether there is automatic flood cover or with opt-out, where is the incentive to pay an increased premium or have home and contents insurance, when the uninsured and underinsured are underwritten by taxpayers?

There is compulsory third party car insurance, compulsory workers compensation insurance for employers and compulsory public liability insurance for many businesses. The time has come for compulsory home and contents insurance.

### **2. State taxes and levies be removed to make insurance more affordable.**

All states charge stamp duty on insurance policies and some impose levies. We live in a high risk fire area on the Great Ocean Road. We accept and understand the risk which includes having an appropriate home and contents insurance policy for such a high risk area.

However, to date we have also had to pay a fire services levy. Our insurance policy is just over \$1,000. This includes a fire services levy of nearly \$200. When you add the 10% stamp duty to the levy, over 22% of the cost of our policy is for the levy and stamp duty. This would apply to many others.

The Victorian Government intends to abolish the levy as recommended by the Victorian Bushfires Royal Commission.

The other inequity with the levy is that the uninsured receive the same fire services benefit as the insured that pay the levy.

All state taxes and levies imposed on insurance policies should be abolished.

### **3. Businesses must have adequate insurance cover.**

Unfortunately many businesses are underinsured. Many do not have loss of profits insurance. Again there is not much point in flood cover being provided if a business is underinsured.

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<sup>1</sup> "Insurance and the Fire Services Levy" by Counsel Assisting p20 (31 March 2010)

#### **4. Total Replacement Value Policies must be provided by insurers.**

Some insurers still provide a “Sum Insured Policy” that places the onus on consumers and can leave them underinsured.

All policies need to “Total Replacement Value Policies”. If a standard definition of “flooding” is used for insurance policies then the standard for replacement should be “total replacement value”.

#### **5. Lenders are compelled to ensure mortgagees maintain home and contents insurance.**

Those who take out a mortgage to purchase a residential property are required by the mortgagee to take out home and contents insurance. However, once the loan is provided the mortgagee does not ensure the insurance policy is renewed annually. This means a mortgagee can let the policy lapse.

Lenders should have systems in place to ensure mortgagees keep their home and contents insurance policy current.

#### **6. There should be automatic flood cover.**

Your executive summary states bushfire and storm cover are automatic. Then making flood cover automatic is a logical progression.

Natural catastrophes are becoming more frequent and intense. This has resulted in greater loss of life and extensive property damage not anticipated. Risks that previously were regarded as remote are now a reality.

Hurricane Ike hit the United States in 2008. It was the third costliest Atlantic Hurricane to make landfall there<sup>2</sup> (attached). In Orange County Texas, flooding occurred where it was not meant to- flooding houses outside the expected flood zone. These properties did not have flood cover and nobody was ready for it.

Reference is also made to the fact more valuable homes are being built in risky areas and are not being built with disaster risk in mind. There is need for more stringent building codes.

Again if moral hazard is to be reduced then there should be automatic flood cover.

#### **7. Identifying homes with high flood risk.**

As stated above in “6” regarding natural disasters being more intense and flooding occurring where it was not expected, will modelling be reliable?

Are insurers and government agencies revising their modelling to ensure homes are identified in areas of likely risk?

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<sup>2</sup> “Insurers under the weather” by Ben Berkowitz (Climate Spectator 10 February 2011). Ben Berkowitz is the US insurance correspondent for Thomson Reuters.

**8. Discounts should not be provided to some or all of these home owners. This is inequitable.**

Those who choose to live in high risk areas assume such a risk and should be prepared to pay for it. We pay a higher premium as stated previously because we live in a high fire risk area in Victoria. We expect to pay a higher premium and do not expect to be subsidised.

What is being proposed is one class of high risk namely those in flood prone areas are provided with a discount. If discounts are provided to one such class then the discount would be expected to be extended to those living in other forms of high risk areas.

Whichever source of funding the discount is used, those already paying a higher premium in high fire risk areas will be among those that provide a discount to those in flood prone areas. Then there are those that choose to live in low risk areas. Why should they subsidise those who live in flood prone areas? Such an approach is inequitable.

The best way to make insurance more affordable is as stated above, remove state taxes and levies on policies.

**9. If discounts are to be provided (which we strongly oppose), State Governments should fund them.**

Currently stamp duty and GST are paid on insurance policies. The revenue collected from these imposts should be placed in a pool to fund the discounts. After all, the revenue is derived from the payment of insurance policies.

In the event stamp duty is abolished, the GST collected will still be substantial. As premiums rise so does the GST collected. State Governments would be constructively contributing to the affordability of insurance and reducing moral hazard.

As stated above discounts should not be provided as this is inequitable.

**10. Mitigation measures are taken by all levels of government. This may also include buybacks and prohibiting further development in flood prone areas as well as more stringent building codes.**

Levees and drainage needs to be upgraded where appropriate. Where floods occurred in Victoria this year, levees in many instances were almost 100 years old. Repairs had not been done nor were they upgraded.

Voluntary buybacks should be an option. A prohibition on new residential development in flood prone areas. More stringent building codes including homes in flood prone areas being elevated and the use of better quality building materials.

Kind Regards

Vincent & Judy Mahon