

11 January 2012

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The General Manager
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The Treasury
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Dear General Manager,

RE NDIR FINAL REPORT & GOVERNMENT RESPONSE

There are commendable recommendations in the NDIR Final Report. However, fundamentally the report entrenches the taxpayer as the insurer of last resort.

The Review Panel legitimises and encourages moral hazard by recommending discounted premiums and rejecting home and contents insurance be compulsory. That is, the cost of those uninsured and underinsured will continually met by taxpayers while discounted premiums will be underwritten by taxpayers.

Our comments are confined to the following:

- 1. No Discounted Premiums.**
- 2. Home and Contents Insurance be compulsory.**
- 3. Affordability- abolition of state taxes and charges.**

1. No Discounted Premiums.

The recommendation of discounted premiums is inequitable, discriminatory and complex. Discounted premiums should not be provided.

Firstly there are others who live in high risk areas who bear their own insurance costs. They accept their responsibility of choosing to live in a high risk area. They do not expect to be provided with a discounted premium underwritten by taxpayers.

We live in a high fire risk area, designated as such by the Victorian Government. Our location is in south-west regional Victoria on the Surf Coast along the Great Ocean Road. We have comprehensive home and contents insurance. Our premium for the current year increased 30 per cent. We have a Replacement Value Policy. The increase is attributed to

our location, implementation of more stringent building regulations and after the recent disasters replacement cost proved to be higher.

We accept the insurance cost associated with living in a high risk area. The responsibility is ours to have adequate insurance. We do not expect to have a discounted premium guaranteed by taxpayers. Nor should anybody else living in a high risk area.

The recommendation on discounted premiums is defining one form of high risk, exposure to flood risk as more high risk and deserving of special treatment than other forms of high risk such as fire. Such discrimination and inequity will lead to calls for discounted premiums to be extended to other forms of high risk.

Secondly, reference is made to a gradual phasing out of the discount which could be up to 20 years. Once such an entitlement is enacted history shows such entitlements are hard to abolish.

Thirdly, the Review Panel has determined businesses will not be provided with discounted premiums where the discount applies to homeowners and occupiers. Such an approach compounds the inequity and discrimination in the discounted premium model.

Fourthly, there are no guarantees homeowners and occupiers will take out adequate insurance even if discounted premiums are available unless compelled to do so. While home and contents insurance is not compulsory the uninsured and underinsured will continue to rely on taxpayers to foot the bill. The report does nothing to discourage this.

Fifthly, there is no guarantee discounts will be restricted to existing homes.

Finally, the recommendation of a discounted premium only reinforces the taxpayer is the insurer of last resort.

2. Home and Contents Insurance be compulsory.

The recommendation rejecting home and contents insurance being compulsory is a missed opportunity. The dismissive tone of the rejection indicates the review panel did not give the issue the important consideration deserved. In fact the Review Panel and Government's rejection encourages and legitimises moral hazard.

As with many matters these days due weight is not given to the responsibilities and obligations individuals must undertake. The report correctly refers to the home and its contents as being the most valuable assets and only assets many have. If such property is not of sufficient value for such owners to insure, others should not be expected to fund the replacement.

The Canberra bushfires, the Victorian bushfires, the floods last year in Queensland and elsewhere, have shown there are homeowners uninsured and also underinsured. The report (p83) cites Tooth and Barker in their study of May 2007. They estimated that the proportion

of owner-occupied homes with no insurance at 4 per cent. Yet other data suggests the number is much higher.

According to Professor Deborah Ralston, in the 2009 Victorian Bushfires around 25 per cent of properties in the fire-devastated areas were not insured.¹ Ralston goes on to cite a 2005 national survey conducted by the Australian Securities and Investments Commission. The survey found 16 per cent of small businesses and 20 per cent of home owners had not insured their properties.

70 per cent of tenants had no contents insurance and around 30 per cent of properties were underinsured. Ralston goes on to say that state-based taxes and fire levies escalate insurance costs especially in Victoria.

Ralston rightly contends there are high social and economic costs to underinsurance and a substantial cost to government in assisting the uninsured. "This presents a moral hazard problem, that is, the costs incurred by individuals who don't insure are passed on to a third party, namely the public or taxpayers".

Allan Manning, the managing director of insurance advisers, LMI Group had similar findings. He assessed home and business claims after the Victorian bushfires. According to Manning, "Thousands of buildings were destroyed in the bushfires, yet more than 30 per cent were not insured and a high percentage of those that were insured, were under-insured".² Manning also goes on to refer the inequity of fire service levies.

The data Ralston and Manning provide indicates the number of uninsured and underinsured are much higher than stated by the Review Panel.

The report in its Executive Summary referring to flood cover states, "Experience also shows that those most exposed to the risk of flood are least likely to purchase it". The report (p30) refers to NRMA's experience in NSW. Where flood cover is provided on an opt out basis, many policyholders exposed to high flood risk opt not to take up flood cover. The report goes on to say "An expansion in the offering will not solve the coverage problem unless policyholders take it up".

If there is no compulsion to have home and contents insurance home owners may opt not to have any insurance or opt to be underinsured knowing charities and governments will bail them out.

The report dismisses compulsory third party car insurance citing this only relates to third parties. Yet, employers are obliged to have workers compensation insurance and businesses are obliged to have public liability insurance.

¹ "Disasters highlight the need to fix the tax system" by Professor Deborah Ralston, Aust Financial Review 18-19 April 2009.

² "Fire tax put heat on too few" by Dr Allan Manning- The Age Wednesday August 19 2009.

The time has come for home owners and occupiers to be no longer treated differently. Until home and contents insurance is compulsory, there is no incentive to pay for insurance or pay an increased premium when the uninsured and underinsured are underwritten by taxpayers.

The increased frequency of extreme weather results in increased instances of property damage. This inevitably leads to a rise in insurance premiums. Unless it is compulsory more may opt to be uninsured and underinsured.

Nor is the lack of compulsion fair to those who are prudent to take out adequate insurance. The current system rewards the irresponsibility of those uninsured and underinsured.

3. Affordability- abolition of state taxes and charges.

The report (p91) says, "These taxes are inefficient; However, they are a significant source of revenue for state and territory governments". The Review has failed to consider the nett benefits of the abolition of state charges.

The report acknowledges the need for affordability. Impediments to this are state taxes and charges. The cost of our current policy is \$1,333.00. Stamp Duty accounts for \$125 and the Fire Services Levy \$175. State Government charges account for \$300 or almost 23 per cent of the total premium cost of \$1,333.00. The Fire Services Levy is expected to be abolished this year.

This illustrates the impost of state charges on insurance especially for those in high risk areas. The abolition of state taxes and charges on insurance makes insurance more affordable. State and Territory Governments would then not have to provide as much in financial assistance for those uninsured and underinsured.

Their abolition is a better and more equitable approach than the complexities involved in providing discounted premiums.

State and Territory Governments would have to provide even less in financial assistance if home and contents insurance was compulsory.

Kind Regards

Vince and Judy Mahon

Cc The Assistant Treasurer and Minister for Financial Services, Minister for Employment and Workplace Relations-The Hon Bill Shorten.