

NDIR Submission from Bob Bruce

The Review Committee,

My submission relates to the provision of default insurance cover for all Australian property holders (including contents in leased and rented properties).

While this present review has been prompted by the floods in Qld there are many different types of events that can lead to catastrophic losses. Broadly these categories might be: fire; occurring internally say by electrical fault or externally by bushfire, flood, storm, impact of vehicles or trees or landslide and earthquake. Even these categories are nuanced and may be difficult to define. The cause may be unusual (fire from falling hot air balloon?) or burst storm water pipes (in my own case) so that insurance cover may not be clear even though the end result might be a catastrophic loss.

Many insurance policies exclude war, acts of god, volcanic eruption, tsunami and nuclear explosion. While these events are unlikely they are not impossible. Esoteric questions arise as to whether perhaps a tsunami is a 'flood' or an earthquake but it is of no comfort to an individual who has lost all. Some causes are extremely unlikely and are irrelevant to many situations.

It is therefore proposed that the **only criteria** for the default insurance cover would be a **catastrophic loss** as defined as equivalent to one years income or 25% of the total insured value of dwelling (or structure) and contents whichever is the lesser. It is not anticipated that peripheral items such as boats and caravans would be covered unless it could be shown that they constituted a principle place of residence or were essential to a business. Small claims are not anticipated at all, although it may be possible for adjunct private policies could be held concurrently for broken glass etc. It is not unreasonable that farm properties would be covered for out buildings and machinery. The maximum claim would be limited to a substantial proportion of the total sum insured.

Levy

The default insurance scheme would be funded by all Australians by levy not unlike the Medicare levy unless an individual opted for adequate private insurance cover. The levy would be based on the insured sum not on income.

It is anticipated that many private insurance products will be developed to compare with the default scheme. Private insurers will have to abide by a codicil that policies will be honoured irrespective of the (no fault) cause. Criminal intent to defraud of course will still apply.

After some years of operation it is anticipated that a substantial fund will be built up and could be deemed as public savings for investment purposes. Once the fund is consolidated it may be possible to lower the levy rate considerably. Although unanticipated disasters are a drain on the public purse, even a billion dollar disaster is small compared to Australia's GDP.

Assessment

Assessment of the sum insured would be a negotiated sum based on market and replacement values of property and goods and chattels. Such value would be determined by an authorised assessor whose opinion would be subject to appeal by tribunal.

Businesses

It is not unreasonable that businesses and clubs and societies, might opt in. This might be subject to the government policy of the day.

The cover is anticipated for property owners not for crop losses or consequential losses or losses by third parties.

The Person

While it is not the intent to cover life under this proposal a statutory amount could be included as cover in the event of a person dying as a result of the loss of the property. Such an amount would vary with time but at present should be of the order of \$100,000 for each life lost.

Estate

In the unfortunate event that the property owners lives were lost it is anticipated that the proceeds of the claim should pass to the estate of the property owners to provide for family as they might have been entitled under normal circumstances. The claim should be pursued by the public trustee if no owners survive.

Regulation

Owners would have to be comply with the regulations of local authorities but non compliance should not negate the cover.

Innovations such as storm or bush fire shelters might be mandated as well as fire breaks etc. Local government would still be responsible for building permits but where a dwelling is permitted in a disaster prone area the local government may become liable for recovery.

Conclusion

The default insurance proposal is designed to cover those individuals who by necessity or insouciance do not have property insurance cover.

While this may be a deliberate misjudgement or cost saving measure on the part of a householder the compassionate thing for the wider Australian society is to ensure that **no** individual suffers a catastrophic loss of home and contents. It also avoids the unseemly circumstance where side by side an insured individual and an uninsured individual are eligible for the same public relief funds as donated by generous Australians. In my own case some years ago a brick house was undermined by leaking BCC storm water pipes. BCC denied liability as did the insurance company; the insurance was a pointless waste of money.

The proposal is more radical and wide reaching than just subsidies for insurance in disaster prone areas. Subsidies do not assist people in less vulnerable areas and there will still be people who do not see insurance as good value, particularly in the light of the strong legal positions taken by insurance companies in the recent floods.

I commend the proposal to the Review Committee.

R.A.Bruce CPE MIE(Aust) BSc(Eng) BA