



2009 Victorian Bushfires  
Royal Commission

## Response to Discussion Paper – cover sheet

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Response  
2009 Victorian Bushfires Royal Commission  
GPO Box 4358  
Melbourne VIC 3001

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Title: Ms	First Name: Nicole	Surname: Rich
<b>Organisation represented by your response (if applicable):</b> Consumer Action Law Centre, jointly with Brotherhood of St Laurence, Footscray Community Legal Centre and West Heidelberg Community Legal Service		
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21 December 2009

By email: [enquiries@royalcommission.vic.gov.au](mailto:enquiries@royalcommission.vic.gov.au)

Response to Discussion Paper  
2009 Victorian Bushfires Royal Commission  
GPO Box 4358  
Melbourne VIC 3001

Dear Sir/Madam

### **Submission in response to the 2009 Victorian Bushfires Royal Commission's Fire Services Levy and Insurance Discussion Paper**

We welcome the opportunity to provide comment to the 2009 Victorian Bushfires Royal Commission (the **Commission**) in response to its Discussion Paper on the fire services levy and insurance (the **Paper**).

This submission is made jointly by the Brotherhood of St Laurence, Consumer Action Law Centre, Footscray Community Legal Centre and West Heidelberg Community Legal Service.

In this submission we concentrate on the alleged links between the levying of the Victorian fire services levy and insurance taxes on home building and contents insurance policies on the one hand, and non-insurance and under-insurance in Victoria on the other.

While we do not necessarily support the high level of taxes and charges now imposed on these insurance policies – there is some merit in the arguments both that they have grown too large and that they are levied on too narrow a base – we strongly disagree with claims that the impact and effect of these taxes and charges is a high rate of under-insurance or non-insurance of Victorian property.

Such claims are assumptions that “sound like they would be right” but are, in fact, questionable on the evidence. By contrast, there is evidence that other, more significant factors are contributing to rates of under- and non-insurance in the Victorian community, and that these factors have been ignored or understated by the insurance industry.

Below we submit that the Commission should make any recommendations on the Victorian fire services levy and insurance taxes only after considering all the available research and

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information in this area, including research which indicates that levies and taxes may not contribute to rates of under- or non-insurance in the Victorian community to a significant degree and that other factors may be much more significant contributors to levels of under- or non-insurance.

We also recommend below that the Commission should ask the insurance industry to create no frills insurance products with different payment and policy cover options and to offer replacement policies and eliminate sum insured policies.

Our comments are detailed more fully below.

### **Introduction - claims made about the impact of the fire services levy and insurance taxes**

It is often claimed that the fire services levy and stamp duty (and subsequent GST) on home building and contents insurance may encourage people either to under-insure or not insure at all by increasing the cost of insurance. Such claims also argue that this places a greater financial burden on governments if they must then provide financial help to uninsured persons after a natural disaster strikes.

For example, the Paper at paragraph 29 discusses these claims, including information provided by the Insurance Council of Australia (**ICA**). In submissions to the Commission, the RACV states that:

the Fire Services Levy is a major contributor to non insurance and underinsurance by residential and business consumers,<sup>1</sup>

the Insurance Australia Group (**IAG**) states that it believes the current regimes for the taxation of insurance:

contribute to underinsurance and non-insurance, with consequential negative fiscal impacts when the public purse is inevitably called upon in times of climate related disasters<sup>2</sup>,

and the National Insurance Brokers Association (**NIBA**) states that the level of insurance taxation in Victoria:

by any measure has a significant effect on the take up of insurance in Victoria. Affordability is a major reason why Victorians choose not to insure or to only partly insure their property

...

Clearly there is in Victoria a very large section of the public that no longer protect their property by insurance. Not only do these people risk financial ruin and are a potential burden on the Government but they do not make the appropriate contribution towards funding the fire services.<sup>3</sup>

Some submissions also refer to the current Commonwealth Government *Review of Australia's Future Tax System*. The Commonwealth Treasury's tax review consultation paper of December 2008 briefly discussed the issue of state insurance taxes. It noted that submissions to the review argued that 'stamp duty on insurance may encourage people to either under insure or to not

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<sup>1</sup> RACV, *Submission to the 2009 Victorian Bushfires Royal Commission*, May 2009, p5.

<sup>2</sup> Insurance Australia Group, *Submission to 2009 Victorian Bushfires Royal Commission*, 15 May 2009, p4.

<sup>3</sup> National Insurance Brokers Association, *Problems with the Funding of Fire Services in Victoria*, *Submission to 2009 Victorian Bushfires Royal Commission*, 11 May 2009, p3, p5.

insure at all by increasing the cost of insurance products relative to other goods. While this in itself is inefficient, it may also lead to an increase in government expenditure if assistance is provided to the uninsured in the event of a disaster'.<sup>4</sup>

The leading submission in this regard was from the ICA, which argued that 'reform of general insurance taxes should be a priority for the Review'.<sup>5</sup> The reform sought is the removal or reduction of insurance taxes and the fire services levy in a number of states. The ICA advanced two arguments in favour of these reforms, also argued in submissions to the current Commission regarding Victorian insurance taxation specifically:

1. The need to relieve insurance policy holders from the burden of insurance taxation as an unfair impost on consumers of insurance;<sup>6</sup> and
2. These state taxes have impacted on the take-up of insurance and contributed to the level of non-insurance and under-insurance in Australia.<sup>7</sup>

We agree that the imposition of taxes and levies does make insurance products more expensive. It is a matter of government policy as to whether such taxes and levies fall fairly or unfairly on those consumers.

However, we also believe that the argument that state levies and taxes have impacted on the take-up of insurance by consumers has been overstated and that other, more significant factors have been ignored or understated by the ICA, insurers and insurance brokers.

Below we discuss both non-insurance and under-insurance. In our view, it is clear that various changes could be made by the insurance industry itself to significantly improve insurance cover in both regards.

We note also that it is important to distinguish between home building and home contents insurance cover, and between cover held by home owners and by tenants. Many of the claims that have been made about the level of under-insurance and non-insurance in the Victorian community in the wake of the February 2009 Victorian bushfires tragedy have been misleading in that they conflate data about building and contents insurance, creating apparently large overall non-insurance figures and confusing the causes of under-insurance. These issues are discussed below.

### **Non-insurance in Victoria**

In the ICA and others' submissions to the Commission, the ICA's report into the causes of non-insurance is cited in support of arguments that removing the fire services levy and other insurance taxes would help to address under- and non-insurance by Victorians.<sup>8</sup> However, the following research findings were published in this report:

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<sup>4</sup> Commonwealth Government, *Australia's future tax system: Consultation paper*, December 2008, p191.

<sup>5</sup> Insurance Council of Australia, *Submission to the Review of Australia's Future Tax System*, October 2008, p2.

<sup>6</sup> See also comments by Karl Sullivan, General Manager Policy - Risk and Disaster Directorate, quoted in [insurancenews.com.au](http://insurancenews.com.au), *NSW regulator wants fire services levy scrapped, stamp duty cut*, 20 October 2008.

<sup>7</sup> See also Insurance Council of Australia, *The Non-Insured: Who, Why and Trends*, Prepared by Dr Richard Tooth and Dr George Barker, Centre of Law and Economics, May 2007.

<sup>8</sup> As above.

- Home type and tenure prove to be very significant factors affecting the take-up of contents insurance (p13);
- Non-insurance for contents cover is much greater for renters and those not living in detached houses (p13);
- A household's financial position including their savings, outstanding debts and income are closely related to rates of non-insurance (p17);
- Affordability appears to be a key driver of non-insurance (p17); and
- The results are consistent with people weighing up the costs and benefits of insuring and insuring primarily when they have significant assets to insure and sufficient funds to do so (p26).

These findings are reinforced by Table 2 of the ICA's report, drawn from the Australian Bureau of Statistics *Household Expenditure Survey 2003/2004*, which sets out the levels of contents insurance by tenure of housing:<sup>9</sup>

**Table 2: No contents insurance by tenure  
(000s of households)**

	<b>Dwellings</b>	<b>No Contents Insurance</b>	<b>% without insurance</b>
Own / paying off	5,417	625	12%
Rent / other	2,319	1,545	67%
<b>Total</b>	<b>7,736</b>	<b>2,170</b>	<b>28%</b>

The findings appear to suggest that home contents insurance is a comfort product purchased by middle class home owners with assets to protect and sufficient disposable income to afford the purchase.

A closer examination of the report suggests that the reduction in premiums that would follow the reduction or removal of taxes, charges and levies would assist no more than one or two percent of consumers currently without contents insurance.

For example, the report considers the effect of the removal of the fire services levy in Western Australia (**WA**), an event that has been also cited by some submissions to the Commission as providing further evidence that removing the fire services levy leads to increased insurance cover by consumers. Figure 18 in the ICA's report indicates that the removal of the fire services levy in WA led to an increase of about one per cent in the number of consumers taking out contents insurance.<sup>10</sup> The Sigma Plus Consulting report on the phase-out of the fire services levy in WA, also referred to in some of the submissions to the Commission, confirmed that insurance premiums dropped but contained no data or information as to whether more consumers had taken out insurance cover as a result.<sup>11</sup>

We do not dispute that a decrease in taxes would have a marginal impact on a small number of middle class consumers taking out insurance, but there are other reforms that would have a far greater impact on the problem of under- and non-insurance in the community.

<sup>9</sup> As above, p12.

<sup>10</sup> As above, p13.

<sup>11</sup> Sigma Plus Consulting, *Emergency Services Levy Insurance Compliance Review: Final Report*, April 2004.

We believe that the insurance industry has failed to acknowledge that it has contributed to the problem of non-insurance by failing to provide products and payment methods suitable to the needs of low- and lower middle-income consumers. The ICA's own report identified tenants and asset rich, income poor retirees as demographic groups with low levels of contents insurance. Research by community sector groups has explored the reasons for non-insurance among both groups.

A 2006 Brotherhood of St Laurence Report investigated the reasons why many low-income people were uninsured.<sup>12</sup> Through group interviews with low-income consumers in Victoria and New South Wales, they identified specific barriers to taking out or maintaining insurance cover – not just simple cost, but also perceived limitations of insurance products or insurers, problems with payment options and attitudes to assets. The report findings included the following:

- The primary reason for not obtaining insurance was perceived affordability of premiums. A typical comment by a focus group participant was: “Insurance is a luxury when your income is that way. The numbers don’t add up”.<sup>13</sup>
- Many people on low incomes manage their finances fortnightly, and so consider whether something is affordable in the context of their fortnightly budget. Both payment frequency and the total annual cost of the premium are key aspects of affordability, as noted by one participant: “A lot of people can’t afford to pay yearly, then you have the options of, say, quarterly and half-yearly. About a hundred dollars quarterly is still a lot of money”.<sup>14</sup>
- A feeling of distrust and dissatisfaction of insurers was significant. One woman said: “[Insurers] don’t care about the little people”; and another added, “They look down on you”.<sup>15</sup>

The main recommendation of the report was that the insurance industry should address issues of affordability by creating and marketing ‘no frills’ insurance products which might:

- allow fortnightly payments;
- provide payment options which are convenient for low-income people, such as Centrepay;
- provide an appropriate level of cover for people with limited household assets;
- provide more options on the payment of an excess;
- be structured as ‘disaster cover’—that is, claims are only payable in the event of substantial loss above a certain value.<sup>16</sup>

The insurance industry does provide for pay by the month insurance but the premiums are often significantly more expensive than annual premiums. We acknowledge that paying an annual premium via monthly instalments means that the insurer does not gain the benefit of the use of the total annual premium funds upfront from which to generate investment income, however, for

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<sup>12</sup> Brotherhood of St Laurence, *Risk and reality: Access to general insurance for people on low incomes*, Genevieve Sheehan and Gordon Renouf, June 2006.

<sup>13</sup> As above, piii, p7.

<sup>14</sup> As above, piii, p20.

<sup>15</sup> As above, piii, p9.

<sup>16</sup> As above, p27.

consumers looking for a way to budget for insurance, the impact is that this option is more expensive. Further, pay by the month insurance is subject to savage and unforgiving provisions in the *Insurance Contracts Act 1984* that provide little or no relief for late payment due to financial hardship.

It is noteworthy that long after the publication of the ICA and Brotherhood of St Laurence reports on non-insurance, not one mainstream insurer has allowed the option of fortnightly instalment payments through Centrepay for Centrelink recipients, even for asset rich, income poor pensioners, one of the specific non-insured groups identified in the ICA research. Note that the option of direct debit payments, especially for Centrelink recipients, is a different proposition to Centrepay.<sup>17</sup> Direct debits are risky for low-income consumers as any timing errors in the payment of benefits or the debiting of their account may lead to the imposition of bank penalty fees for a dishonoured direct debit transaction or an overdrawn account and/or the charging of late payment penalties by the service provider. Further, as noted above, direct debits are generally offered only on a monthly basis (even though income tends to be credited on a fortnightly basis and thus this is the cycle used by lower-income people for budgeting). In addition, direct debits are generally withdrawn on the monthly date corresponding to the policy commencement date, not on a date corresponding to when the policy holder receives their income.

We believe that the failure of the insurance industry to provide appropriate instalment payment options for low- and lower middle-income consumers has a more significant impact on levels of non-insurance than the impact of taxes and charges on the lump sum annual premium to be paid by those consumers.

Recent research appears to confirm the Brotherhood of St Laurence findings that current insurance products often fail to meet the needs of low- and lower middle-income consumers. A recent examination of home contents insurance policies for the Tenants' Union of Victoria has suggested that most contents policies are home owners' policies and of limited value to tenants, another of the specific non-insured groups identified by the ICA research.<sup>18</sup> Even the two renter's policies available for the research had a range of serious limitations, with one being merely a home owners' contents policy with minor variations.

For example, the research revealed that most home contents policies are priced according to the dollar amount of contents covered by the policy. Many policies provide cover for a minimum of \$40-50,000 worth of contents but most tenants do not need and cannot afford these more expensive traditional contents policies (by contrast the AAMI renter's policy provided cover for a maximum of \$25,000). As another example, most contents policies are sold on the assumption that the purchaser also has building insurance. Unfortunately for tenants, who do not have building insurance, this creates a policy gap that leaves them struggling to meet the costs of emergency accommodation in the event of a natural disaster. Building insurance provides cover

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<sup>17</sup> Centrepay is a free, direct and voluntary bill paying service offered by Centrelink to persons receiving Centrelink payments. It allows regular amounts to be debited from a person's Centrelink payments, before they are paid to that person, and instead paid directly to businesses that are registered with Centrepay to pay bills such as rent, utilities such as electricity, gas, water and telecommunications, education fees, court fines and childcare.

<sup>18</sup> Tenants Union of Victoria, *The Insurance Industry and the Needs of the Tenancy Market*, Denis Nelthorpe, 2008 (forthcoming, copy on file).

for temporary accommodation costs, so home owners are covered. However, this sort of cover is not available under the home contents policies available to tenants.<sup>19</sup>

It is interesting to note that similar problems exist with car insurance products. Low- and lower-income consumers have tended to purchase third party property insurance if they purchase any insurance, as it is the cheapest form of car insurance. However, it does not cover any damage to the consumer's own car, thus is of limited attractiveness to consumers. A decade ago insurers added a benefit called "uninsured motorist's extension" to these policies, which ostensibly covers the consumer for damage to their own car if caused by an uninsured driver, however, neither consumers nor their advisors are widely aware of this benefit and, further, the requirements involved before a claim will be paid under this extension make it difficult to claim on.<sup>20</sup> However, it seems possible that cheaper third party policies could be extended to provide more effective cover for a modest increase in premium.<sup>21</sup>

We believe that a greater number of low- and lower middle-income consumers would purchase insurance if the insurance industry provided a reasonable range of products that actually met the needs of such consumers at a price they could afford. At present, most insurance products – with or without taxes and levies – represent poor value for money for these consumers.

### **Under-insurance in Victoria**

The insurance industry has frequently blamed consumers for under-insurance. A NIBA newsletter in June 2009 cited the ICA in stating that the 'ICA has suggested householders in all regions of Australia need to take greater responsibility for protecting their assets, citing a warning it released in October suggesting residents prepare for the impending bushfire season'.<sup>22</sup> The ICA released similar warnings again in October this year, urging consumers to undertake a detailed review of their insurance needs by carefully checking the cost of rebuilding their home and the cost of replacing all property contents inside and outside the home.<sup>23</sup>

The Paper itself notes the difficulties that many consumers face in accurately assessing risk and accurately calculating the costs of rebuilding, but does not pose any questions about the role of insurers in ensuring these assessments are made accurately.

We question whether the problem lies with home owners and lay at least some of the blame for under-insurance at the feet of the insurance industry. The starting point is to understand under-insurance, how under-insurance arises and what could be done to prevent it.

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<sup>19</sup> See also Lesley Parker, 'Keep your head above water', *Sydney Morning Herald*, 30 July 2008, available at [www.smh.com.au/news/planning/keep-your-head-above-water/2008/07/28/1217097144036.html](http://www.smh.com.au/news/planning/keep-your-head-above-water/2008/07/28/1217097144036.html).

<sup>20</sup> See also Michelle Innis, 'Disasters and other excuses', *Sydney Morning Herald*, 27 September 2005, available at [www.smh.com.au/news/money/disasters-and-other-excuses/2005/09/26/1127586791041.html](http://www.smh.com.au/news/money/disasters-and-other-excuses/2005/09/26/1127586791041.html).

<sup>21</sup> For example, some insurers have begun offering third party fire and theft policies that cover damage to the consumer's car in more circumstances and involve only a small increase in the annual premium.

<sup>22</sup> National Insurance Brokers Association, 'The underinsurance debate rolls', *Insurance & Risk Professional*, June 2009.

<sup>23</sup> See, eg, Insurance Council of Australia, *Tips for protection during the Victorian bushfire season*, Media Release, 16 October 2009.

*What is under-insurance?*

In the context of home building insurance, under-insurance occurs if the home owner has failed to insure the home for a sufficient amount to enable him/her to rebuild the property in the event of total destruction by bushfire or other disaster.

Most home owners are aware of the need to insure against such an event and most do. Unfortunately many home owners find out after the event that their insurance payout is insufficient to rebuild the property.

We again note here that it is important to distinguish between home building and home contents insurance cover, and between cover held by home owners and by tenants. As we stated earlier, many of the claims being made about the level of under-insurance and non-insurance in the Victorian community in the wake of the February 2009 Victorian bushfires tragedy have been misleading. For example, there is a large difference between home owners not insuring their home and contents, and tenants not insuring their contents. The ICA conflated its own data about home building and home contents insurance to overstate rates of non-insurance when, in fact, most home owners do insure their home and most of the figure for non-insured consumers related to tenants uninsured for their contents (see the attached document).<sup>24</sup>

We also consider that additional unsubstantiated claims such as that there was a greater likelihood that the uninsured perished in the fires because they were more likely than the fully insured to have remained at their property and attempted to fight the fire, are inappropriate and offensive.

*How does this under-insurance happen?*

The Paper notes the difference between “sum insured” policies and “total replacement” policies. Historically, the insurance industry sold home owners a building policy based on a sum insured that would be sufficient to rebuild their home. Under-insurance occurred if the nominated sum insured was insufficient to enable the home to be rebuilt.

The big question in terms of “blame,” is to examine how the “sum insured” is determined, and by whom. The insurance industry has argued that the home owner is responsible for nominating the sum insured, and where the home is under-insured, the blame lies with the home owner.<sup>25</sup>

To the extent that a home owner is responsible for nominating the “sum insured”, it is not surprising if under-insurance is then common. Most home owners have no qualifications to assess the cost of rebuilding and presumably engage in a process best described as a “lucky dip.”

The Paper also recognises the difficulties consumers have in making these calculations. It notes at paragraph 63 that the Australian Securities and Investments Commission’s (ASIC) 2005 report into the Canberra bushfires found that only a small number of insurers provided property owners with access to reliable or comprehensive tools for estimating the cost of rebuilding their home

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<sup>24</sup> Further, again, the ICA ignored the fact that most of those without home contents insurance are low-income earners and tenants, and that there is substantial evidence indicating that removal of the fire services levy would provide only marginal assistance in addressing under-insurance and little if any assistance to these low-income earners and tenants.

<sup>25</sup> See, eg, Insurance Council of Australia, above n23.

and property owners failed to increase the sum insured over time to keep up with changes in building costs or renovations to the home.<sup>26</sup>

However, more importantly, ASIC's report into the Canberra bushfires exposed the myth that home owners are responsible for nominating the sum insured on their home.

The report identified that standard home building policies in Australia place the *burden* of estimating rebuilding costs on the consumer (unlike in some other countries), which is an intrinsically difficult task requiring technical knowledge. However, in fact, many home owners relied upon the telephone advice or the website calculator provided by their insurer to establish the sum insured. Thus, the insurer effectively determined the sum insured but the burden of this being wrong fell on the consumer. The report noted that many of these home owners were subsequently found to be under-insured.

These findings appear to apply equally to the current Victorian situation. The following case studies were cases referred to Bushfire Legal Help.

#### **Case Study 1**

Ms X purchased a small cottage in the Flowerdale area shortly before the bushfires. She had not previously owned a home or purchased building insurance. Ms X nominated building insurance cover of \$50,000 in a taped telephone transaction. The tape revealed Ms X had no idea how to assess the cost of rebuilding and also suggested that the telephone underwriter was aware that \$50,000 was likely to be less than would be required to rebuild. Although advice was provided on the sum required for public liability no advice was given regarding the inadequate sum insured for rebuilding.

#### **Case Study 2**

Ms Y rang her insurer and made enquiries as to the appropriate sum insured on her home. The transaction was taped and the telephone underwriter provided a "guestimate," which was accepted by Ms Y. After the bushfires Ms Y discovered she was massively under-insured. It was further discovered that the "guestimate," provided by the insurer was \$80,000 less than the figure suggested by the web calculator provided by the same insurer. The insurer agreed to provide Ms Y with \$80,000 in addition to her sum insured.

The ASIC Canberra bushfires report and these case studies suggest that the insurance industry should accept some responsibility for under-insurance.

#### *What is current best practice?*

In recent times, perhaps the last 10 years, several mainstream insurers have abandoned the use of "sum insured" policies. Insurers such as AAMI, CommInsure and others have introduced "replacement" policies for home owners.

A replacement policy does not require the home owner to nominate a "sum insured." The replacement policy offers to rebuild the home of the owner regardless of the cost, provided the

<sup>26</sup> Australian Securities and Investments Commission, *Getting home insurance right - A report on home building underinsurance*, Report 54, September 2005.

home has been maintained in a reasonable state and has been accurately described by the owner. For example, the current AAMI policy states ‘we cover insured damage or loss to your home buildings for whatever it costs to repair or rebuild them...You will never be under insured with AAMI.’<sup>27</sup>

The advantage of these policies is that home owners can avoid under-insurance and transfer the risk of miscalculation of the cost of rebuilding to the insurer.

Home owners impacted by the Victorian bushfires with replacement policies have been able to rebuild without concerns about under-insurance.

It might be wondered why all insurers have not moved to offer replacement rather than sum insured policies as an obvious solution to the problem of under-insurance.

There are two possible answers. One is that not all insurers are able to calculate the cost of rebuilding for purposes of reinsurance. If that is the case, home owners are entitled to wonder how those same companies would expect them to be any more competent at the same calculations.

The alternative is that sum insured policies are retained in the knowledge that under-insurance has the same effect as an excess or self insurance, that is, that premiums are held down or reduced at the expense of home owners rather than the insurer.

#### *Sum insured v Replacement policies – How to tell the difference?*

In view of the fundamental difference between the two types of policy, it should be a relatively easy task for home owners to identify replacement policies and avoid sum insured policies and the risk of under-insurance. Unfortunately, this is not the case.

An examination of home building policies has revealed a curious trend within the insurance industry. With the noticeable exception of AAMI, there appears to be marked reluctance to identify policies as replacement or sum insured. Many insurers, such as CGU, do not make clear whether the policy is sum insured or replacement in marketing materials. Others, such as RACV, have a sum insured policy but make frequent references to replacement in the product disclosure statement. CommInsure has a replacement policy but makes frequent references to a sum insured and QBE has a policy which is probably replacement but is described as sum insured and would be beyond the comprehension of the average home owner.

The Commission is invited to examine these policies, which are on the insurers’ websites. The confusion over wording is likely to confuse home owners, and in our view they may be both misleading and driving anti-competitive outcomes.

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<sup>27</sup> AAMI, *Home Building Insurance Policy - Now with Complete Replacement Cover*<sup>TM</sup>, Product Disclosure Statement.

## Conclusion and recommendations

Under-insurance and non-insurance in the Victorian community remains a significant concern.

However, while it is correct that the Victorian fire services levy and stamp duty (and GST) on home building and contents insurance products make them more expensive, it is not correct to assume that this is contributing in any significant way to under-insurance or non-insurance (or, therefore, to an increase in government expenditure to assist the under-insured in the event of a disaster).

While it is clearly important for the Commission to consider the desirability and effect of state levies and taxes on insurance take-up, we strongly recommend that the Commission scrutinise the claims made on this issue carefully, including reviewing any primary materials cited in support of such claims, to consider whether it thinks these materials do, in fact, provide such support.

We submit that the Commission should make any recommendations on the Victorian fire services levy and insurance taxes based on all of the available research and information in this area, including research that indicates there are other, more significant factors that could be addressed to improve rates of under-insurance and non-insurance in the Victorian community.

In terms of non-insurance, we recommend that the Commission revisit the recommendations of the 2006 Brotherhood of St Laurence report, namely, that the insurance industry should create no frills insurance products which might:

- allow fortnightly payments of insurance premiums;
- provide payment options which are convenient for low-income people, such as Centrepay;
- provide policy options with an appropriate level of cover for people with limited household assets;
- provide more options on the payment of an excess; and/or
- be structured as ‘disaster cover’—that is, claims are only payable in the event of substantial loss above a certain value.

In terms of under-insurance, there appears to be no significant cost difference between sum insured and replacement policies. It is our submission that the industry could reduce the problem of under-insurance without reliance on the cost of premiums or a reduction in the fire services levy, by ensuring all home owners purchased replacement policies. This solution would not rely on home owners being price sensitive and would be far more effective than a proposal to reduce premiums but to continue to require home owners to nominate a sum insured for the rebuilding of their homes. We therefore recommend that the Commission recommend that the insurance industry move to offering replacement policies and eliminate sum insured policies.

### About Brotherhood of St Laurence

The Brotherhood of St Laurence is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in

Melbourne, but with a national profile, the Brotherhood continues to fight for an Australia free of poverty, guided by principles of advocacy, innovation and sustainability. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both national and local levels.

#### **About Consumer Action**

Consumer Action is an independent, not-for-profit, campaign-focused casework and policy organisation. Consumer Action provides free legal advice and representation to vulnerable and disadvantaged consumers across Victoria, and is the largest specialist consumer legal practice in Australia. Consumer Action is also a nationally-recognised and influential policy and research body, pursuing a law reform agenda across a range of important consumer issues at a governmental level, in the media, and in the community directly.

#### **About Footscray Community Legal Centre**

Footscray Community Legal Centre is a non-profit, community-managed association providing legal and financial counselling services to the community. In recent years our service has targeted the needs of refugee communities from Horn of Africa and Burma.

#### **About West Heidelberg Community Legal Service**

The WHCLS commenced operation in 1975 with the volunteer legal services of John Cain, the former Premier of Victoria. Informed of the high levels of legal need in the area he offered his services to the newly established West Heidelberg Health Service on a Monday night. The legal service is based within the Olympic village of 1956, the facilities of which were handed over for public housing. Today, due to tightly targeted, segmented waiting lists, many but not all, of the clients of the service come from significantly disadvantaged social backgrounds including families fleeing domestic violence, newly arrived and older migrant communities with a large proportion of people from the Horn of Africa, people with some form of disability or mental health issues, people with poor income support or on social security benefits. The legal service has been fortunate for thirty years to partner with a Clinical Legal Education Program of La Trobe University and is co-located with Banyule Community Health. The health service provides health, allied health and social welfare services and enables the legal service to reach out to more people in need through these partnerships.

Please contact Nicole Rich at Consumer Action on 03 [REDACTED] or at [REDACTED] in the first instance if you have any questions about this submission.

Yours sincerely



Gerard Brody  
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**BROTHERHOOD OF ST LAURENCE**



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**FOOTSCRAY COMMUNITY LEGAL CENTRE**



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**WEST HEIDELBERG COMMUNITY LEGAL SERVICE**

Attach.



**CONSUMERS FEDERATION OF AUSTRALIA  
MEDIA RELEASE – 2 March 2009**

**Insurance Council Misleads Public**

The Insurance Council of Australia appears to be seeking a political advantage from the bushfire disaster by exaggerating and misrepresenting their own research findings according to the Consumers Federation of Australia.

The Council's press release claims that 24.5% of Victorian households do not have any home and contents insurance. The press release implies that a high level of homeowners do not have building insurance. However the Council's research showed that that only 4.1% of Victorian homeowners had failed to insure their home. Most of the 24.5% did not own a home.

Spokesperson Denis Nelthorpe said many of the 24.5% of non - insured people were not homeowners, but tenants and low-income earners who could not afford contents insurance. The Insurance Council should not have combined the figures for building and contents insurance.

Further, the Insurance Council did not reveal that the report noted that many of uninsured homeowners were pensioners who could no longer afford insurance premiums. It was not clear from the report that the removal of the fire levy would assist these consumers.

The Consumer's Federation of Australia is outraged by any suggestion that these uninsured consumers should not be entitled to assistance from the Victorian Bushfire Appeal Fund.

The press release was part of an ongoing campaign by the insurance industry against the fire services levy. The Victorian public should not be subjected to such cynical manipulation of research findings.

Contact: Denis Nelthorpe  
[REDACTED]