

Submission Number: NND.001.01290

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What is your submission based on? I am making this submission based on my professional knowledge, qualifications or experience or on behalf of a group or organisation

What is your area of professional expertise?

If you are lodging your submission on behalf of a group or organisation, what is the name of the group or organisation? Good Shepherd Australia New Zealand

Your Submission

In your experience, what areas of the bushfire emergency response worked well?

Our submission focuses on the efficacy of the general insurance industry in Australia, as the primary means by which Australians can be resilient to the risk of bushfires damaging or destroying their homes, belongings and cars. We don't seek to provide feedback on the emergency response efforts of the various authorities. Our submission is therefore provided under the preparation, mitigation, (response) and recovery question below.

In your experience, what areas of the bushfire emergency response didn't work well?

Our submission focuses on the efficacy of the general insurance industry in Australia, as the primary means by which Australians can be resilient to the risk of bushfires damaging or destroying their homes, belongings and cars. We don't seek to provide feedback on the emergency response efforts of the various authorities. Our submission is therefore provided under the preparation, mitigation, (response) and recovery question below.

In your experience, what needs to change to improve arrangements for preparation, mitigation, response and recovery coordination for national natural disaster arrangements in Australia?

Submission Summary

Our submission addresses the serious problem of Home Building underinsurance (including non-insurance) in Australia. In the context of natural disasters, Home Building underinsurance means (i) people not being able to effectively rebuild their lives, (ii) people experiencing severe economic loss from their (likely) largest asset, (iii) reputational risk for insurers, (iv) additional costs to all levels of government, and therefore taxpayers.

We see opportunities to reduce Home Building underinsurance in Australia from two perspectives.

Perspective 1 - Complexity

Home Building under-insurance is often the result of a complex interplay between (i) the general insurance market, (ii) regulation of financial services and of building codes, (iii) market forces in the building repair industry, and (iv) consumer financial capability.

Good Shepherd Recommendation 1.1

(a) Measure the gap between the coverage provided by Home Building Insurance PDSs and consumer understanding of those products; (b) classify and document the gap; (c) make recommendations to government with respect to closing the gap, encompassing what insurers can do to simplify products, and what governments can do to improve the financial capability of its citizens.

Good Shepherd Recommendation 1.2

(a) Measure consumer claims experience for "Complete Replacement" policies compared with "Sum Insured" policies; particularly with respect to the extent to which each policy type restores consumers to their pre-loss condition; (b) make recommendations to government with respect to the minimum product features that should attach to Home Building Insurance in order to reduce or eliminate underinsurance.

Good Shepherd Recommendation 1.3

(a) Measure the impact that building repair market forces have on the level of Home Building underinsurance following a natural disaster; (b) make recommendations to government to reduce or eliminate this impact.

Good Shepherd Recommendation 1.4

(a) Measure the impact of changing building codes on the level of Home Building underinsurance in Australia; (b) make recommendations to government to reduce or eliminate this impact.

Perspective 2 – Risk Multiplication

People on low incomes tend to live in regional areas where the risk of a natural disaster is higher – for example, the geographies where the vast majority of the recent bushfires occurred. This creates a "risk multiplication" effect where the people who need home building insurance the most, are far less likely to be able to afford it. The risk is further multiplied by the increasing frequency and severity of natural disasters in those areas, placing the cost of insurance ever further out of reach.

Good Shepherd Recommendation 2.1

(a) Determine the relative affordability of insurance in urban, regional and remote areas, taking into account incomes, the frequency and severity of natural disasters, and the cost of insurance in those locations; (b) make recommendations to government to improve this relativity in order to reduce underinsurance.

Introduction – about us

Good Shepherd Australia New Zealand was established to address the critical, contemporary issues facing women, girls and families. We work to advance equity and social justice, and to support our communities to thrive. We aspire for all women, girls and families to be safe, well, strong and connected.

For over 30 years Good Shepherd has partnered with community organisations and peak bodies, local, state and federal governments, and universities to work collaboratively and in place-based settings to improve outcomes for vulnerable people. Our service provision focuses on safety and resilience, economic participation and microfinance, including the delivery of insurance and financial inclusion programs to vulnerable people which include No Interest Loans (NILS) delivered in over 600 locations across Australia, Good Money Stores and the provision of financial counselling.

A central part of our purpose is to challenge the systems that entrench poverty, disadvantage and gender inequality.

Women, girls and families face many challenges to full economic participation, safety and resilience; the risk of bushfire (and other natural disasters) is a clear example of a circumstance where all these challenges come into play simultaneously.

Our baseline perspective on economic participation is that far too many Australians experience financial exclusion – that is, reduced access to a bank account, credit and general insurance.

Good Shepherd's Good Insurance program works with insurers and governments to improve the extent of economic participation specifically with respect to general insurance.

This work provides us with unique expertise and perspective which we believe is of great value to the work of the Royal Commission.

Providing this submission forms part of our focus on System change as the most effective means of reducing or eliminating intergenerational poverty and disadvantage, which has been at the core of our work in Australia since 1863, and internationally since 1835.

Problem Statement

Our homes fulfil our most fundamental human needs. They are the location of much that gives our lives' meaning. In addition, our homes are (likely) our largest asset. Home Building insurance is the key financial service we use to protect these simple but profound realities.

For this reason, Home Building underinsurance (including noninsurance) has profound adverse economic and social consequences for Australians, in a context where the need for full insurance is increasing in line with the frequency and severity of natural disasters, including catastrophic bushfires.

Perspective 1 - Complexity

General Insurance Market

General insurance (asset protection for buildings, contents and vehicles) is the single most powerful economic tool available to us to provide resilience to the risk of bushfire. There are aspects of the general insurance industry in Australia – particularly in the area of product design - that contribute to the occurrence of Home Building underinsurance in Australia. These include:

The requirement, in most cases, to specify a Sum Insured.

Insurers may make calculators available to assist consumers with this; and may use their own data asymmetries to recommend a Sum Insured to a consumer. However, the bespoke nature of Home Buildings means that underinsurance can still occur, and the consumer is responsible for any shortfall.

Variability in product terms

There are various provisions in various products that consumers may or may not be aware of, fully understand or fully take account of. For example:

A product may or may not cover "additional" costs such as debris removal

The cost of debris removal may or may not be a component of the sum insured

The policy may or may not include a provision to extend beyond the total sum insured in some circumstances, such provision may or may not be sufficient to cover the actual costs

These product variables directly contribute to the incidence of Home Building underinsurance, but to a unknown extent.

Variability in policy settlement

Where a building claim is cash settled – which is generally at the discretion of the insurer - there are numerous factors described on the Insurance Council of Australia's disaster website, that directly contribute to the incidence of Home Building underinsurance, but to an unknown extent.

Regulation, including building codes

Homes are generally built to last decades, and building codes and standards change over time – often, though not exclusively, due to lessons learnt from natural disasters. Changes to codes invariably increase the cost of repairing or replacing a Home Building, and directly contribute

to the incidence of Home Building underinsurance, but to an unknown extent.

Building Repair market forces

The scale of catastrophes, including bushfires, has a significant relationship to the supply/demand equation for building repair services. If cost rise in the aftermath of natural disasters, those costs eventually translate to increased insurance premiums, with downstream impacts for underinsurance – but to an unknown extent.

Financial Capability

Financial capability is the combination of attitude, knowledge, skills, and self-efficacy needed to make and exercise money management decisions that best fit the circumstances of one's life, within an enabling environment that includes, but is not limited to, access to appropriate financial services.

In order to effectively leverage general insurance as a means of preparing for, mitigating against, responding to and recovering from bushfires, community members require a level of financial capability that they may or may not possess. This gap in capability places people directly at risk of underinsurance.

The assumptions that government and industry make about consumer financial capability in this space may include:

English literacy

numeracy

cognitive capability with respect to the complexities described above; for example the ability (and disposition) to read, interpret, understand and self-apply the details of a Home Building PDS; or – which is more challenging – the ability to compare multiple PDSs and pricing arrangements to determine value for money

the ability to negotiate claims outcomes with insurers

the ability to maintain situational awareness about the level of insurance required for their Home

Good Shepherd is not aware of any work that has been undertaken to test the ability of Australian consumers to accurately interpret Home Building PDSs.

Financial security

Financial security refers to a person or family having the necessary economic resources to meet their material needs so that they can live with dignity. This can be through access to appropriate and well paid work; adequate social protection including basic needs infrastructure for health, education, dwelling, information and a social wage; reasonable costs of living; the capacity to absorb financial shocks; and the resources to maintain this standard over their life course.

Unfortunately, a growing proportion of Australians face financial insecurity on a daily basis. Many individuals and families are forced to make tough choices about where to spend their limited income or savings available to them – often choosing between food on the table, clothing, housing or utility costs, or other essentials. Those who are in vulnerable or precarious financial situations may be one shock away from financial disaster. For people in this situation, who may homeowners in disaster prone areas, insurance is often not a priority when considered against their other needs. This ultimately puts them at greater risk of loss of property and inability to recover after disaster.

Access to financial counsellors plays an important role in supporting people's financial security and wellbeing. Through specialist financial conversations, Good Shepherd's financial counsellors support people to understand their finances and create plans for balancing their budgets. This often includes discussion of the importance of insurance and planning for the long terms. Financial counsellors are vital to disaster preparedness, recovery and resilience. Accordingly, further opportunities exist to fund and promote the role of financial counsellors.

Perspective 2 – Risk Multiplication

Economic fundamentals have predictable outcomes, one of which is that people on lower incomes will purchase more affordable housing. In Australia it is often the case that more affordable housing is located in regional areas.

It is also the case in Australia that natural disasters, including bushfires, are more likely to occur in regional areas, as we have seen over the course of recent events. This increases the cost of Home Building insurance in regional areas due to risk-based pricing.

It is also the case in Australia that the frequency and severity of natural disasters in Australia is increasing, particularly in regional areas. This still further increases the cost of Home Building insurance in regional areas.

The combined effect of these four factors is that Home Building underinsurance becomes more likely in the place where it is needed most – but once again to an unknown extent.

Is there anything else you would like to tell the Royal Commission?

We anticipate that the issue of Home Building underinsurance will be a top issue under consideration in the Royal Commission – and that data may become available that enables the Commission to (a) measure the extent of underinsurance in ways that are not available to Good Shepherd; and (b) use the data to make appropriate recommendations to mitigate the extent of underinsurance. However, in the absence of this outcome, we commend our recommendations to the Commission as appropriate steps to ensure that as a community, we do everything we can to ensure that people's homes – their most fundamental human need, their (likely) greatest asset, and the location of much of their lives' meaning - can be fully restored following the devastation of bushfire, or any other natural disaster.

Do you agree to your submission being published? Yes I agree to my submission being published in my name