

September 2, 2013

The facts on contents premiums

Articles in some News Ltd publications today that describe a link between contents insurance premiums and the falling cost of some household goods are inaccurate.

The Insurance Council of Australia is concerned these reports are likely to mislead consumers and industry observers.

The facts are:

- The prices of many individual items may have fallen in recent years, but households own more of them; the average contents policy claim size has soared more than 30 per cent in the three years to June (Insurance Statistics Australia trend data)
- The average sum insured in this time has increased by about 7-8 per cent (ISA trend data)
- The cost of replacing household items is only one of many factors insurers take into consideration when calculating individual premiums
- Changes in crime rates are only one of many risks used when calculating premiums; a change in burglary rates has only a moderate impact on premiums in most areas, and crime rates in some jurisdictions are rising. For instance, unlawful entry of dwelling offences in Queensland rose 12 per cent from 2010-11 to 2011-12 (*QLD Police Service Annual Statistical Review 2011-2012*)
- A large part of the premium for home and contents policies is made up of exposure to natural hazards at an individual risk level, and common risks such as house fires and burst pipes
- Key drivers of premiums are the impact of catastrophes on communities and the cost of reinsurance following a global reassessment of Australia's risk by global reinsurers
- This year bushfires and the inundation and storms in NSW following ex-Tropical Cyclone Oswald have cost insurers about \$155 million
- In Queensland, the catastrophe damage bill this year is nearly \$1 billion
- Catastrophe claims since 2011 have cost insurers \$6.7 billion
- The rollout of flood cover to about 90 per cent of household policies may be reflected in premiums where households have flood exposure
- Where the risks are being reduced, such as through the construction of permanent mitigation, communities may be benefitting from large price reductions (such as Charleville, Queensland)
- State taxes and levies are having an impact too:
 - NSW policyholders pay an Emergency Services Levy on their policies, which is compounded by the addition of GST and state stamp duty

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- Insurer statutory contributions to NSW fire and emergency services have increased from \$376 million in 2001-02 to \$711 million in 2011-12. This represents a real increase in insurer contributions of 25 per cent over the period. Over the past decade, insurer statutory contributions to the NSW fire and emergency services has considerably outpaced growth in Gross State Product and overall state taxation.
- Queensland recently increased stamp duties on home/contents and motor premiums to 9 per cent; last year, Tasmania increased its stamp duties to 10 per cent
- The general insurance industry on average accepts more than 97 per cent of claims, and pays out \$106 million to policyholders each working day

Insurers are committed to reviewing and potentially reducing premiums where community and individual risks have improved.

The ICA and its members continue to work with governments, community organisations and other stakeholders to improve consumers' accessibility to insurance, and help reduce non-insurance and underinsurance.

Useful links: www.findaninsurer.com.au