

INSURANCE TAXES TARGETED

The Treasury Secretary, Ken Henry, has added his considerable weight to the push to get rid of inefficient and unfair insurance taxes in his sweeping review of Australia's taxation system, but so far his recommendation has not been taken up by the Rudd Government.

Mr Henry's tome contained a raft of recommendations but unfortunately abolishing Fire Services Levies and Stamp Duty on insurance policies was not among those that Federal Treasurer, Wayne Swan immediately accepted.

Part of the motivation for inaction may well have been a desire not to provoke another fight with the States and Territories which collected almost \$3 billion dollars in insurance taxes in 2006-07.

In his report, Mr Henry said: "Imposing specific taxes on insurance deters people from insuring their property and encourages them to bear unnecessary risks, rather than pooling risk with others. Rates of non-insurance (for building and content insurance) generally are higher at lower incomes, yet low-income people are less able to bear the risk."

Perhaps even more compelling was the submission to the Victorian Bushfires Royal Commission by lawyers assisting the Commission.

After hearing argument from the insurance industry, including NIBA, taxation experts and the Victorian Government (which is opposed to reform), they concluded that the levy was inequitable and should be replaced by a broad-based property levy.



"The Commission has heard sufficient evidence ... to recommend the abandonment of the fire services levy," wrote Counsel Assisting the commission, in a report submitted in April.

"The property-based models (such as have been implemented by Western Australia or South Australia) are fairer and more transparent and should be preferred."

NIBA CEO, Noel Pettersen, said that while it was disappointing that the Rudd Government has chosen not to pursue this reform at this time, the pressure for change, particularly in relation to the Fire Services Levy in NSW and Victoria, is becoming immense.

"The Federal Government has not ruled these reforms out and we will continue to lobby for these taxes to be abolished," he said.

IT'S YOUR LIFE – MAKE SURE IT'S COVERED



The death or serious illness of the breadwinner can have a devastating effect on a family, especially if the person is self-employed.

Recent research for the life insurance industry has found that one in five Australian families will experience the death of a parent, or a serious accident or illness that renders a parent unable to work.

The typical result will be that the family will lose half or more of its income because the breadwinner does not have sufficient income protection or life insurance.

In fact, 95% of families do not have adequate life insurance and this will cost the Federal Government \$1.3 billion in additional social security payments over the next 10 years.

The research was carried out by the National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra.

It found that these events create enormous strain on individuals and families, often made worse by the substantial financial burden that results when someone is unable to work for an extended period. In many cases this could have been avoided by adequate insurance.

The figures are frightening. Based on 2008 statistics, 118 Australian families lose a working age parent every day. Every year, 235,790 working age parents suffer a serious illness or injury and over 17,000 of them are forced to stop work, either permanently or for an extended period.

All this adds up to more than one million working-age parents with dependents being affected by death, serious accident or illness.

The typical family's parents are in their 30s with two children, and have a mortgage. They also have typical levels of superannuation and life insurance.

In most cases, death cover, which is included in their superannuation, will be inadequate, and income protection is only offered as an option by a minority of funds.

"A family with young children, with typical levels of insurance, faces financial disaster as a result of the serious illness, injury or loss of one of the parents," the report says.

In scenarios where the husband or wife is temporarily disabled or sick, the family's income drops by half or more after childcare and mortgage repayments. The family originally had \$1,224 per week to live on and now must survive on about \$600 per week.

If the husband dies, the family's income drops to just one third of the original level, even after government benefits are taken into account.

The report's projections show that in the longer term, if the hypothetical family had sufficient levels of insurance, they could maintain 75-80% of their remaining income over the next five to 10 years.

"This avoidable outcome highlights the importance of every Australian making a conscious and informed decision about protecting their most important asset – their ability to earn an income. It also highlights the broader economic consequences of underinsurance and the need for the federal government to explore policy options that encourage Australians to protect their financial future and, in turn, their way of life," the report concludes.

RECOVERING FROM DISASTER

Severe storms in Melbourne and Perth and floods in south-west Queensland are a stark reminder of the importance of having adequate insurance cover for your property when Mother Nature shows her destructive side.

The Insurance Council of Australia has provided some tips on disaster recovery and how a claim is made and assessed.

The most important issue is safety. Rely on the advice of emergency services if they have attended your property and if it is not safe to enter, make sure you and your family or employees stay out of danger.

To make a claim, immediately call your broker or insurer. Most insurers have 24 hour toll free numbers for making claims. Don't worry if your policy details have been destroyed in the event which sparked the claim. Your broker will have a copy of your policy.

Many policies require a policyholder to take reasonable steps to minimise a loss. If it is practical and safe to do so you should effect temporary repairs. For example, move furniture or equipment away from the damaged part of a roof or organise for a cover to be put over the roof. However, check with your broker before any expenditure, for example, hiring a tarpaulin or replacement equipment.

Damaged equipment and furnishings, including carpet should be removed if they are a health hazard, but check with your broker before disposing of them. They may need to be retained for the purpose of assessing the claim or you may only need to provide photographs and a detailed inventory.

Many policies, such as Industrial Special Risk and Business Pack operate on the basis of restoring your office or factory to the state it was in before the disaster struck, within the limits of the sum insured.

Don't forget that for a Business Interruption claim, losses are more difficult to assess because the claim will depend on turnover and loss of production, which can't be immediately calculated. It is possible to claim some immediate assistance, but the loss usually can't be fully calculated until the end of the financial year.

It will assist your claim if you can make a list of what has been lost or damaged. This list will help assessors and the insurance company to understand the value of your loss and to process the claim quickly. While it may be difficult to remember everything, at least record the major items and be prepared to work with the assessor to develop a more comprehensive inventory at a later date.

Most large claims will require the services of a loss assessor who is skilled in examining the cause of the loss and its value, and who will then report back to the insurer before a decision is made on the claim.

In some cases specialist examinations may be required by engineers, builders, hydrologists or fire experts. If the policyholder works cooperatively with the assessor it will help to progress the claim.

As part of the assessment process, tradespeople will usually be asked to measure and quote for the repair work. You may be asked to provide your own quotes or many insurer have strategic relationships with large contracting and building companies who can carry out work to the standard that the insurer requires.

Once quotes have been obtained, the insurer may either commission the repair work or make a cash settlement with you, depending on the circumstances. Be aware that an insurer will only cash settle for the value of the works based on what their own builder or repairer could complete them for.

If you have any questions about your claim you should speak to your broker.



NEW LAW WILL CAUSE POLICYHOLDER CONFUSION

Including insurance policies under a proposed new law covering unfair contract terms would provide no additional protection for policyholders and create confusion in the market, the National Insurance Brokers Association (NIBA) has told the Federal Government.

In 2008, the Productivity Commission recommended that a new generic, national consumer law should apply in all sectors of the economy and include a national unfair contract terms law. A Senate Committee recommended that these provisions should also be reflected in the Insurance Contracts Act.

The Federal Government invited responses to this proposal, which was contained in a consultation paper.

However, generic consumer protection is generally difficult to apply to insurance policyholders and for this reason it has been accepted practice throughout the world to have specific legislation. In Australia's case the Insurance Contracts Act has been operating since 1984.

NIBA CEO, Noel Pettersen, said brokers represented the interests of policyholders, and they were concerned that having two pieces of legislation doing the same thing was fraught with danger.

"There will be unnecessary duplication and contradictory terms, requirements, penalties and obligations.

"The Insurance Contracts Act was developed by the Australian Law Reform Commission with the specific intention of ensuring that insurance contracts and the practices of insurers in relation to such contracts operated fairly. By all accounts the legislation has been successful, and this was acknowledged in a 2004 review of the Act," Mr Pettersen said.

The Act applies to insurance contracts with a small number of exclusions (e.g. reinsurance, health insurance, State and Commonwealth insurance).

It provides a consistent approach to affected insurance contracts across all States and Territories. In terms of consumer remedies for unfair contract terms its provisions go further than those envisaged by the draft general provisions attached to the consultation paper.

For example, the Insurance Contracts Act requires that both parties (the insurer and the insured) act in "utmost good faith" while the proposed general provisions simply require parties to act in "good faith."

"Having two sets of relief provisions for insurance contracts would be confusing to consumers, the judiciary and insurance companies. There would be no certainty as to which legislation should apply. A wrong choice could see the consumer placed at a disadvantage.

"Taking action under the general unfair terms legislation would in many cases see consumers worse off than if they had taken action under the Insurance Contracts Act," Mr Pettersen said.

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