Properties under fire: why so many Australians are inadequately insured against disaster

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Abstract
The fire season has started early. Homes were destroyed last month in bushfires near Lancefield, Victoria, while buildings and lives have been lost as fires continue to sweep through southern Western Australia. Alongside the devastating loss of life and properties, many properties potentially in the path of Australian bushfires are inadequately insured. While we have known about high rates of non-insurance and under-insurance across Australia for some time, there is surprisingly little solid data on the issue. We recently set out to address this gap at both the national and regional level. Early findings from a national survey (which we will be presenting at the 2015 TASA conference later this month) indicate 13% of those surveyed are without insurance cover for their assets - 9% of home owners are without house insurance and 41% of tenants do not have contents insurance. Approximately one-quarter of those who are insured may also be inadequately covered.

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Around 20% of Australians are not insured against disasters, and even a quarter of those who do may be under-covered. AAP Image/Jason Webster

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Approximately one-quarter of those who are insured may also be inadequately covered.

Under-insurance: a hot topic

These new findings strengthen our understanding of some already troubling figures on insurance in Australia.

After bushfires destroyed or severely damaged 500 homes in Canberra in 2003, estimates for...
national rates of under-insurance varied from 27 to 81%. The 2009 Victorian Black Saturday bushfires destroyed over 2000 homes, with about 13% of all property losses not insured.

The average uninsured loss for each Australian natural disaster between 2004 and 2011 is estimated to be nearly one billion dollars.

Yet the lessons of Black Saturday and other disastrous events appear slow to sink in.

For some, the purchase of adequate insurance cover is simply not an option. Bushfire-prone urban fringes are increasingly populated by low income earners and households where English may be the second or third language. The affordability and perhaps cultural understanding of insurance stand as obstacles to obtaining adequate coverage.

Informing people of the risks of under- or non-insurance, along with fear mongering or peer-pressure, are unlikely to be effective strategies for change. Even when money is not as tight, more information does not necessarily result in behavioural change.

This was found in interviews with at-risk residents in New South Wales. Everyday priorities, care-providing roles, and trade-offs between environmental risks and benefits are all factors that influence risk tolerance and safety behaviour.

Interviews we undertook with “tree changers” living on the outskirts of Hobart, Tasmania also highlight the uncertainty associated with taking out insurance cover. While affordability is not an issue for this cohort, public mistrust in insurance companies, and their lack of transparency certainly is.

Insurance as one part of an integrated disaster strategy

Losing one’s biggest material asset without the means to re-build or repair certainly exacerbates the personal trauma of disasters. It also contributes to the financial burden borne by governments and communities in the process of recovery.

However property insurance should not be seen as a panacea for the next Black Saturday. Insurance alone cannot prevent floods or fires, and without a broader support network in place it is unlikely to be as effective as proactive disaster mitigation.

In fact, our research suggests that house and contents insurance works best as one aspect of an integrated disaster preparedness and recovery plan. With some governments leaning towards the privatisation of risk, insurance can appear as the disaster management mechanism of choice.

Yet re-building a house (if one has adequate insurance cover) does not, on its own, re-build lives and communities.

Insurance can help in the aftermath of a disaster only if it is coupled with collective clean-ups, infrastructure repair, government assistance, and community outreach.

A call to action

As the fire season kicks off, it's not only about individual responsibility for adequate insurance coverage. Affordability is clearly important for those who are most vulnerable in the face of property loss. Insurers also need to bring more transparency to premium pricing.

Governments have a vital role to play here, too. By providing greater accountability for payout decision-making, they could increase consumer confidence that money spent on insurance will actually deliver dividends. Only through the development of robust prevention and recovery strategies can communities and households be adequately safeguarded against...
future disasters.

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