

# BUSHFIRES AND INSURANCE-

## WHAT YOU NEED TO KNOW

### INSURING YOUR HOME AND CONTENTS

#### INTRODUCTION

People buy home building and contents insurance to try to protect themselves from significant financial loss, upheaval, and potential homelessness in the event that their home is destroyed or severely damaged.

Homes can be destroyed or severely damaged, by a range of natural disasters, including bushfire. This information sheet does not cover everything to do with insurance, but we hope it will help you consider your insurance needs.

What you will be covered for, what is specifically excluded, and the cost of the insurance (the premiums) vary widely between home building and contents insurance policies. There are so many insurance providers that you can shop around in relation to both the coverage and the cost. What is important for you is that you understand what you are buying, so you will not be disappointed if you need to make an insurance claim.

**Warning:** Don't wait until a bushfire is almost upon you to look into your insurance needs. Home and contents insurance will generally not cover you if a new policy is taken out immediately before a bushfire (time periods vary and there are some exceptions, for example, if you are purchasing a house). Insurance companies often refuse to issue or increase insurance policies once a fire in the area has started.

Your contract of "insurance", or policy, is made up of your Insurance Certificate, the Product Disclosure Statement (PDS), and Key Facts Sheets. Once you pay the premium for the policy, you and the insurance company will be bound by the terms and conditions of the policy.

Home and contents insurance is a yearly contract. Even if you've been with the same company for 20 years, it is a new contract each time it is renewed. It is important you review your insurance every year, in case your needs have changed or your policy wording has changed.

The law about insurance contracts is found in the *Insurance Contract Act* (Cth). The General Insurance Code of Practice usually applies (if the insurance company is a member).

When considering a home insurance policy, some key factors are:

- what events and loss will the policy cover?;
- the sum insured – what is the right amount?; and
- how will the policy respond when I make a claim?

Some of these concepts overlap. They are explored in more detail on the next page.



## Insurance brokers

Not confident to compare insurance policies yourself to get the best terms and price? You may prefer to use an insurance broker who can come up with some options and quotes for you. A broker usually charges a small admin fee and receives a commission from the insurance company you choose to go with. Brokers also have access to insurance policies that are not available directly to general public.

**Warning!** Not all insurance brokers are familiar with the additional costs and issues associated rebuilding on bushfire prone land. If they dismiss this issue, find another broker.

Insurance brokers aren't licensed to advise you on the specific sum to insure for, but they can help you find a policy with good coverage for temporary accommodation, removal of debris, additional rebuild costs because of changes to laws or regulations, etc.

For more information see <http://understandinsurance.com.au/insurance-brokers>

It is also important to check which events are "excluded" under the insurance contract. For example, the insurance policy may not cover damage sustained more than 72 hours (or a set time) after the initial earthquake, or theft by someone you let into your home. Remember to read the general exclusions as well as the excluded events. Some policies cover flood, others include it as an optional extra for an additional premium, but many policies exclude flood.

Check the policy to make sure it includes coverage for the events and type of damage that you care about. In particular, in a bushfire prone area, check the coverage in relation to fire.

Here are two examples of "Fire" from two different insurance policies. The first example may provide much better insurance coverage in a bushfire situation because not all homes are damaged directly by flame – serious damage can occur through scorching, heat, melting etc.

### Example 1

#### **What is covered**

Loss or damage caused by:

- Fire (including bushfire); and/or
- heat, smoke and/or soot as a result of fire

### Example 2

#### **What is covered**

Fire is loss or damage caused by burning with flames.

#### **What is not covered**

Loss or damage caused by:

- scorching, burn marks or melting where there has been no flame, or
- heat, soot, smoke or ash, unless your building or contents have caught on fire

## INSURED EVENTS AND THE DEFINITION OF FIRE

Insurance policies generally provide cover only when an "insured event" occurs. The policy will list the insured events that are covered – for example, it may cover fire, storms, lightning, theft, and earthquake, and other events listed in the policy.

Each of those events will be defined in the insurance policy. These events may be defined quite differently in different insurance policies (with the exception of "flood" – insurers are now required to use a standard definition of flood). This is why sometimes you may be covered for an event but a neighbour, who experienced the same event but has a different insurance policy, may not be.

## COMMON ISSUES - LOSS AND ADDITIONAL COVERAGE

As well as considering which “insured events” the insurance covers, you need to consider what kind of potential loss or damage the insurance policy will cover.

An insurance policy only covers certain types of loss or damage, which are identified in the Product Disclosure Statement. For example, a particular building insurance policy may cover damage to your home and garage / carport, but not to sheds or other outbuildings.

The policy may expressly exclude certain things – in other words, it will make clear that certain things are not covered by the insurance at all. Check your policy wording carefully for any exclusions. For example, some policies exclude damage to outdoor trees and plants, and landscaping. In this situation, even if the home building insurance is sufficient to rebuild your house, it will not contribute at all towards restoring your garden or landscaping, such as paths.

Some policies offer additional coverage if your building is damaged or destroyed in an insured event.

Common examples are:

- removal of debris;
- temporary accommodation;
- architects’, engineers’, surveyors’, and solicitors’ fees;
- meeting the requirements of any government or local authority regulations when rebuilding;
- storage costs to keep your undamaged contents safe; and
- costs to make your site safe (e.g. temporary fencing).

Some of these are explored in more detail below

Check whether, and how, such additional benefits are capped (e.g. 10% of sum insured).

### *Removal of Debris*

If a home is significantly damaged or destroyed, the cost of demolition and removal or debris can be very high. This is particularly so if the site is difficult to access or if there is contamination such as damaged asbestos.

Insurance policies vary greatly in their coverage of the removal of debris.

Removal of debris may be:

- an additional benefit (uncapped or capped. For example, capped at 10 or 20% of the sum insured);
- covered, but comes out of the “sum insured” amount (it is not “additional”); or
- not covered by the policy at all.

Look out for:

- exclusions such as the removal of trees and stumps being expressly excluded from the definition of debris; and
- in some cases, the policy may only cover removal of building debris, not damaged contents.

### *Temporary Accommodation*

Check whether the home and/or contents insurance policy provides coverage for temporary accommodation. This is relevant in a situation where your home is damaged by an insured event to such an extent that you cannot live in it.

Cover for temporary accommodation is very useful while you sort out the insurance claim on your home, and while the repairs or rebuilding works occur. This process can take a long time, so think about the length of coverage you’d like for temporary accommodation.

Check the specific wording in each policy, but variations on Temporary Accommodation coverage found in insurance policies include:

- coverage as an additional benefit, for example, 10% of the building insurance “sum insured” (in addition to the sum insured for your building), or 10% of the contents insurance “sum insured” (in addition to the sum insured for your contents);

- not covered;
- only covered if you have contents insurance, as opposed to building insurance only; or
- there may be limitations – e.g. not available if you don't plan to rebuild; or if the house was not your main home.

Look out for:

- limits on the amount and duration of the accommodation. The policy may also refer to “reasonable costs” or may be limited to the “rentable value” of the buildings that were damaged / destroyed;
- some policies will also pay additional amounts for practical expenses like utility connection, mail redirection, and relocation of your contents; and
- if you have pets, check if boarding costs for pets are covered by the insurance policy, while you are in temporary accommodation. The maximum period / amount of coverage for pets varies widely between policies.

**TENANTS:** If you are a tenant, check if your contents insurance policy provides some coverage in the event that the rental property becomes unliveable due to an insured event. For example, paying the difference for a certain period, if you have to move to a home where you pay higher rent.

**OWNERS OF STRATA UNITS:** If you own a unit in a strata title building, the body corporate should take out building insurance for the building (which may or may not have coverage for temporary accommodation). In addition, you could look for a contents insurance policy that provides coverage for temporary accommodation for strata title units.

### ***Meeting the requirements of any government or local authority regulations when rebuilding***

The issue of government and council requirements when rebuilding a home are an important consideration, particularly for owners of what is known as “bushfire prone land”. This issue is explained in more detail in the related information sheet “FACTORS AFFECTING REBUILD COSTS – For residents of Blue Mountains and Lithgow Councils”.

A policy may provide a capped amount of additional coverage to meet the requirements of government or local authority regulations when rebuilding. While better than nothing, a capped amount may be grossly insufficient to meet the total cost of complying with such regulations. A more generous policy might say something like *“We will also pay any additional costs required for your buildings to comply with government or local authority by-laws.”*

### **HOW MUCH SHOULD I INSURE MY HOME (BUILDING) FOR?**

Unfortunately we cannot answer this question for you. But we can tell you about some factors to take into account.

The main factor to take into account is the REBUILD COST. In other words, whether the insurance coverage would allow you to rebuild your home in the case of total destruction. Unfortunately, in disaster circumstances pressure on the availability of tradespeople and materials can lead to increased rebuild costs.

For more about rebuild costs, particularly on bushfire prone land, read the related information sheet “FACTORS AFFECTING REBUILD COSTS – For residents of Blue Mountains and Lithgow Councils”.

Do not base your level of insurance on the market value of your property (what you paid for it, or think you could sell it for) – prices can go up and down and have little to do with the rebuild cost.

When determining the amount you want to insure for, as well as considering your rebuild costs, also consider any additional coverage. For example, if you want temporary accommodation and removal of debris to be covered, and this is not truly “additional” coverage under your policy, but will come out of the “sum insured” amount, remember to increase the “sum insured” to allow for these items.

## Sum Insured vs Replacement Cover

There are two main types of home building insurance cover: Replacement cover and Indemnity (or Sum Insured) cover. However, very few insurers still offer replacement cover.

With replacement cover, you don't set a limit on the amount of cover to repair or rebuild your home. The insurer agrees to replace your property (for example, to "new" condition, or "to the standard it was before the event").

With Sum-Insured / Indemnity cover, you need to decide on the sum / amount that you wish to insure for (although the insurer may set some minimum or maximum limits). Sometimes you can pay an additional premium for "Gap Cover" (a buffer amount) of, for example, 20% of the sum insured.

Insurance companies do not have any obligation to tell you how much to insure for. Unfortunately, you have to work this out for yourself. Remember to revise the amount each year.

Beware of policies / companies / wording, that:

- prevent you from insuring for enough to cover your actual rebuild costs; or
- in the event you decide not to rebuild (e.g. because you have accidentally underinsured), will only pay you the value of the property / land (leaving you unable to pay out your home loan and/or buy a home elsewhere).

### CASE STUDY

John purchased his federation style home 7 years ago with a mortgage. He arranged insurance, and set the sum insured for \$210,000 which was the price for which he bought the house. Every year, the sum insured increased with the Consumer Price Index. His house burnt down. His builder has advised him that the cost to rebuild his federation style home would be \$4,000 per square metre, meaning he could only rebuild a 50 square metre house.

John was seriously underinsured and could not rebuild his home to anything like it was before the fire. The insurer advised him that before they would pay the sum insured, he had to either enter into a building contract to rebuild the house or they would only pay him the value of the property less the land value immediately prior to the fire. House prices had fallen and the market value for the house was now \$190,000. The land value alone was \$150,000. Applying that wording John would only get \$40,000.

Over-insuring can also lead to disputes. Insurance only indemnifies you for your actual loss, so if an event occurs and the insurer can replace your property for less than the sum insured, your claim will be limited to that amount. You will not get the extra as a cash

bonus! You may have been paying premiums for something you did not need and you may not get a refund. Talk to your insurer to see what affect the sum insured has on your premium.

## ISSUES WITH REPAIR OR REBUILDING YOUR HOME

Different home building insurance policies will offer different levels of repair and replacement. When choosing an insurer think about how important this is to you. Insurance policies may have different approaches to issues like:

- matching materials (e.g. no longer available or hard to find); and
- repairing or rebuilding undamaged parts of the building in partial loss events (e.g. so that materials and colours will match).

Be aware, that these factors may affect your premiums.

Most home building insurance policies state that the insurer has the right to decide how they will settle a claim: in other words, whether they will pay you cash, whether they will repair the building, whether they will organise their preferred builder to rebuild your home, or whether they will agree to pay a builder that you choose, etc.

Some policies will state the insurer will choose the builder; other policies will let you choose. If you have a preference it is better to choose a policy that accommodates your preference. Once a claim is made, it can be very stressful having to argue with the insurer.

Where the insurer engages their own builder to do the repair or rebuild work, the insurer is responsible for the quality of the work. If you insist on a cash settlement and engage your own builder, you will need to sort out any problems with the work directly with your builder.

## CONTENTS INSURANCE – SOME ISSUES

### *Sum to insure for*

You will have to tell the insurance company the sum that you wish to insure your contents for. As with building insurance, think carefully about how much it will cost to replace your contents, noting any limits on what the insurer will cover.

Here are some tips:

- make an inventory of your goods to help you estimate their value. There are many online applications and calculators developed by insurers that can help with this; and

- Read the PDS, noting any limits on how or whether the insurer will replace certain items. For example, there may be limits under the policy for things like:
  - jewellery;
  - sporting equipment;
  - goods in your home used for earning an income; and/or
  - battery-powered items (e.g. cameras, mobile phones).

### *Keeping evidence*

Insurers only have to cover your actual losses, and they are legally entitled to ask you to substantiate your claim. Of course, it is very hard to prove what you used to have once your belongings, and your receipts, are all destroyed in a fire. Therefore, keep evidence of your contents, such as photos, receipts and valuations somewhere safe (offsite, or in your email, or at least somewhere fire and waterproof). Having this evidence could help avoid disputes with the insurer.

### *Repair or replacement of your contents*

When comparing contents insurance policies, one issue to consider is how your contents will be repaired or replaced if an “insured event” happens and you make a claim.

Insurers generally retain the right to decide whether to:

- repair damaged contents;
- replace contents;
- pay you the cost to repair the damaged contents;
- pay you the sum insured, or part of it depending on what has been lost or damaged; or
- pay you with store credit or vouchers.

However one issue to be aware of is the difference between replacing contents “new for old” or “like for like”.

Another issue to be aware of is the use of store credit by insurers.

### ***New for old and like for like***

***Example:*** You bought a lounge 10 years ago for \$10,000. It is now worth \$2,000.

In “new for old” policies insurers will replace old items with new equivalent items. If the lounge is destroyed you will get a replacement lounge equivalent to the lounge you bought when new (this could mean it is replaced by your insurer for more or less than \$10,000).

With some “like for like” policies, you are only entitled to the depreciated value of the contents. Therefore, the insurer can pay you \$2,000 for your lounge, being the value at the time of the loss.

Some policies state that if an insurer agrees to pay you in cash, they will pay you the amount it would cost them to settle a claim. Policies may also expressly state they will provide store credit or vouchers. This can mean that an insurer has an arrangement with a supplier for bulk discounts or they can arrange wholesale prices.

If you refuse the insurer’s offer of replacement or store credit and insist on a cash settlement you may receive less than the face value of the voucher or the retail price of an item.

### **CASE STUDY**

Vera’s home was damaged in a bushfire. Most of her clothes, some books, and some furniture were destroyed. Although her contents insurance policy did not mention store credit, the insurance company offered her store credit in a large department store. This did not suit Vera. She did not drive due to her health problems, and had no one to drive her 50km to the department store. Vera checked the insurance policy which said it was up to the insurer how the claim was settled. Vera got advice that she could still try and negotiate a cash settlement if she explained her circumstances to the insurer. The insurer agreed to cash settle after Vera explained her situation, however they offered her 20% less than the store credit amount.

### **THE COST OF INSURANCE**

Insurance companies try to work out the likelihood of having to pay insurance claims and how much that is likely to cost the company. These factors determine how much they will charge you for premiums.

Factors that can influence the price of home insurance premiums include:

- location and associated risks (is it an area with bushfire, volcano, flood risks, or high burglary rates?);
- materials your home is built from;
- security features of your home;
- your claims history;
- cost of the insurance companies’ insurance (reinsurance);
- government charges and levies;
- your sum insured; and
- the quality of your insurance coverage.

## Some tips to reduce the cost of home and contents insurance

- Your excess is your contribution to a claim. You generally need to pay an excess when you make any claim under the policy. Generally a higher excess will reduce the cost of the premiums you have to pay on the insurance policy.
- This may be useful if you would only make a claim in the event of a “big loss”. Be aware, if your loss is for less than your excess then you will not be insured for that loss and will need to pay for it out of your own pocket.
- Decide whether you really need optional extras like Fusion cover (for appliances with electric motors that may burn out) and Accidental Damage on your contents insurance.
- If you just want to cover basic contents necessary for everyday life, you won’t need to take out additional valuable contents cover (for expensive artworks, jewelry etc).
- Compare policies and get quotes – the premiums charged by different companies can differ a lot! This is because some insurers will be trying to get business (so they will offer competitive prices) or they may be considering your risk as less than another insurer. Sometime this can work in your favour and you can get a bargain. But, you will need to compare coverage carefully, as some insurance is cheaper because the coverage is not as good or the insurer is less likely to pay claims.
- In general, with contents and building insurance for a “sum insured”, the more you insure for, the more you pay in premiums. However, the premiums may go up in steps (e.g. at \$100,000), so the premium for \$95,000 contents insurance may be the same as the premium for \$40,000 contents insurance – it’s worth asking!

## Some tips to reduce the cost of home and contents insurance (cont.)

- Ask about “no claims” discounts, and bundling discounts (if you have several types of insurance with the one company).

## KEEPING YOUR INSURANCE VALID

### *Payments of premiums*

When you obtain insurance you will be required to pay your policy premium. This is generally a one off lump sum payment due at each renewal.

Or, you may be able to pay monthly by direct debit. You need to pay close attention to the premiums being paid, because if premiums go unpaid your insurance cover may lapse.

### *Your “Duty of Disclosure”*

Take care not to void your policy (if it is void, you will not be covered by insurance), or to reduce the amount of insurance you could receive under the policy. Some tips are below.

However, if an insurance company does claim that your policy is void, or that their responsibility is reduced because of your actions, you should get legal advice to check your rights.

When signing up for the policy your insurer will ask you some questions about your home in order to determine your premium. This is called your “duty of disclosure” to the insurance company. These questions differ from insurer to insurer and can include:

- claims history;
- whether you have a criminal history;
- whether you have ever had a claim denied, policy of insurance refused or policy cancelled; and
- questions about the property, including what it is made of and whether it is in a good condition (watertight, secure, occupied).

Take care to answer all of the questions that the insurance company ask you accurately and honestly. Update the information if anything changes during the year (such as a criminal conviction, or a claim on another insurance policy like car insurance). The insurer will not look into your answers unless you make a claim. They may then check very thoroughly and if they find that you have been dishonest, misleading or left out relevant information, they may refuse to pay your claim.

### **Maintaining the property and reducing risks**

Many home building insurance policies include requirements that the policy-holder keep the building well maintained and in good condition as a general condition or exclusion.

Some policies may also require you to “take reasonable precautions for the safety and protection of the building, to prevent damage to the property” etc. These policies generally say that if you do not do this, the insurance company “may reduce or refuse to pay any claim you may make”.

Honouring this obligation could involve the owner cleaning their gutters to reduce the risk of ember attack from a bushfire, for example. It does not require you to risk your safety, to stay and defend your home if a bushfire is upon you, or do anything that would be prohibited by council.

Policies will often require the property to be “occupied” and your cover may end if your property is not occupied for a certain period of time (for example, 60-90 days).

### **False claims or dishonesty**

Insurers can reduce your claim or reject your claim if you make a false claim or inflate your damage after an event.

Equally, insurers need to treat you fairly and honestly.

## **REDUCING RISKS ON BUSHFIRE PRONE LAND**

This information sheet is focussed on insurance issues, but there are other important steps you can take to reduce your level of risk from bushfire. For example, preparing your property, and preparing yourself and your family. Contact your local RFS or go to [www.rfs.nsw.gov.au](http://www.rfs.nsw.gov.au) for information.

The Insurance Council of Australia also has suggestions about “What can I do to protect my assets from a catastrophe?” on their Catastrophe Events page.

## **AFTER A DISASTER HAS OCCURRED – WHERE DO I GET HELP WITH INSURANCE AND LEGAL MATTERS?**

For recent major natural disasters, Legal Aid NSW have been the lead legal agency. Legal Aid NSW lawyers have been present to assist people with their insurance claims at disaster recovery centres. They have an online resource about insurance called “Bushfires – know your rights”.

Your local community legal centre may be able to advise you on a range of legal matters, depending on the topic. The ELIZABETH EVATT COMMUNITY LEGAL CENTRE provides legal advice for residents of the Blue Mountains, Lithgow, Oberon and Bathurst. Call us on (02) 4782-4155 to make an appointment or find out more at [www.eeclc.org.au](http://www.eeclc.org.au)

The Financial Rights Legal Centre (FRLC) provides free legal advice via their Insurance Hotline on 1300 663 464. FRLC also has some great information sheets on their website, including the Bushfire Insurance Guide, and information about dispute resolution and other problems with insurers. Their website is <http://financialrights.org.au/> (go to Self-Help Centre, then Fact Sheets).

The NSW Legal Assistance Forum website has links to plain language law resources for victims of natural disasters on:

- insurance and employment;
- renting and tenancy;
- financial assistance and personal documents;
- information about floods and emergency management NSW;
- domestic violence and parenting issues;
- bushfires; and
- general — legal information and legal resources.