

Fire Insurance For Bushfire Risk

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Abstract

Bushfires provide a great spectacle and drama for television and consequently get widespread coverage much of it live of the most dangerous fires. In terms of actual loss, however, the media coverage makes bushfires appear a much greater risk than they are relative to other more significant natural hazards.

The experience over the past 35 years suggests that bushfires pose a comparatively low risk to the insurance and reinsurance industries relative to other hazards such as thunderstorm, particularly hailstorms, tropical cyclones and, at long intervals, earthquakes. For instance the 1999 Sydney hailstorm damaged some 22000 homes and some 62000 motor vehicles for an insurance payout of \$ 1.7 billion. Similarly, the 1989 Newcastle earthquake damaged some 35000 homes and many hundreds of commercial and industrial properties for an insurance loss of \$ 1.2 billion. [Dr George Walker]

When considering bushfire as a hazard to property it is worthwhile remembering that in any given year in NSW, for example, about 4500 homes burn down from causes other than bushfire.

Statistics are available for property loss in all the great bushfire events but just to review the last few events we can find the following insured loss data.

- ❑ 1994 – bushfires in the Sydney region destroyed some 200 homes and damaged an equal number plus some 222 vehicles were destroyed or damaged. The insured loss was \$ 57 million.
- ❑ 2001 – bushfires in the Sydney region and along the NSW north and south coasts destroyed 109 homes and damaged over 100 more as well as destroying 33 commercial and industrial buildings and some 433 other buildings. The insured loss was \$ 69 million.
- ❑ 2002 – bushfires again in the Sydney region and surrounding country to the north and south destroyed some 82 homes. The insured loss was \$ 25 million.
- ❑ 2003 – bushfires in suburbs west of Canberra’s CBD destroyed 474 homes and over 300 motor vehicles and damaged some 800 other domestic properties. Also lost was the Mt Stromlo Observatory complex and an insured pine plantation. The insurance pay out will exceed \$ 350 million making this bushfire event second only to the great Ash Wednesday bushfires of 1983 in Victoria and South Australia.

A significant difference between bushfires and other natural hazards is the fact that people can start bushfires. Arson and other deliberately lit fires exacerbate the natural causes of bushfires such as lightning strikes. Of all the natural hazards [not including drought] bushfire is the only one requiring special controls to eliminate or minimise human intervention.

In the 2001 NSW bushfires there were 600 reported cases of deliberately lit fires of which about 150 were regarded as suspicious by the NSW Police Service Task Force Tronto. Similarly, in the 2002 NSW bushfires there were some 700 reported cases and again some 150 were deemed to be suspicious. However, there was a lower volume of arson in 2002 compared with about 30% in 2001. In all some 21 cases were referred to the Coronial Inquiry.

People choose to “live among the gum trees” and they do so in the certain knowledge that they are dwelling in bushfire risk areas with outbreaks that can be attributable to nature or man. In more recent times, as flat building blocks became less available, people chose to build their homes on very steep blocks almost becoming a community of cliff dwellers. This practice has added another dimension to their bushfire risk profile. Most homes catch on fire from burning embers landing on the roof or in the garden but the risk to these cliff dwellers is heightened by the exposure of the building’s underbelly to bushfire attack.

There is no doubt that people living at the bushland or forest interface regard the bushfire threat as a tolerable risk. During “La Nina” climatic condition experience suggests the risk is tolerable. However, during an “El Nino” induced climate the risk intensifies and may well become intolerable.

Will people continue to accept as a tolerable risks the destruction or damage of their homes and possessions from bushfire? Perhaps they will and maybe they can as long as they have adequate insurance cover. Opting not to insure at all is a folly but to underinsure such a valuable asset as one’s home and possessions is a disaster in its own terms. Underinsurance is a disaster that can be avoided. People choosing to “live among the gum trees” must use insurance to its fullest extent to protect their assets.

There is a longstanding insurance industry premise that insurance is not a bushfire hazard mitigator. The reason for this view is because insurance is generally seen as a method of sharing natural hazard loss across the whole of the community. Insurance is certainly not a hazard mitigator for other natural disasters like cyclone, hailstorm and earthquake. However, the premise needs to be more closely examined with respect to bushfire.

There is no doubt that property loss and death and injury from bushfire would be infinitely greater were it not for the successes of our fire fighting and emergency services. Instead of dozens or occasionally hundreds of homes being destroyed or damaged by bushfire our communities could be looking at the destruction or damage of many thousands of homes and other buildings.

At present fire fighting services are funded by the community and rely to a significant extent on volunteers. In NSW and Victoria, the two most bushfire prone and also the two most populous, the bulk of the funds come from insurance companies which in turn recoup their contributions from their policyholders; a system of taxation known as the fire service levy.

In NSW insurers contribute some \$ 287 million to NSW Fire Brigades and some \$ 90 million to the NSW Rural Fire Service. In all a total of \$ 377 million pro part of the annual bill of \$ 509 million or around 74%.

Similarly in Victoria, insurers contribute some \$ 120 million to the Metropolitan and Emergency Services and some \$ 121 million to the Country Fire Authority, in all a total of \$ 241 million pro part of the annual bill of \$ 316 million or about 76%.

In these two states these funds support 4352 professional fire fighters, 3250 retained fire fighters and some 133000 volunteer fire fighters plus some 1300 support staff. So in total an annual bill of \$ 825 million supports a fire fighting army of 140000 personnel. It is important to note that well over \$ 1 billion is needed to cover the costs of fighting fires throughout Australia. And SES and NPWS personnel who also fight fires are not included in these figures.

There is a very strongly held view that these mitigation measures in NSW and Victoria will become unsustainable. First, there is the issue of our communities continuing to rely on volunteers. All around the world less and less people are prepared to put their lives at risk as volunteers. Fortunately, and for now, in Australia we have the very best.

Secondly, the financial burden on insurance policyholders is too great. There is too great an inequity on prudently insured property owners bearing the majority of the mitigation costs. They are heavily subsidising those property owners who do not insure at all or who massively underinsure their assets.

In NSW, for example, the typical home insurance contributes 17% of the premium to fire fighting services. Commercial and industrial property owners pay 30% of their premiums for fire protection. These percentages generate the \$ 618 million mentioned earlier.

By the current methods of funding fire fighting services in NSW and Victoria insurance is a bushfire hazard mitigator but is the community's reliance on volunteers and this funding sustainable in the long term?