

EQUITY ECONOMICS
AND DEVELOPMENT PARTNERS PTY LTD

**HOME BUILDING & CONTENTS INSURANCE
BRIEFING NOTE**

Key Points

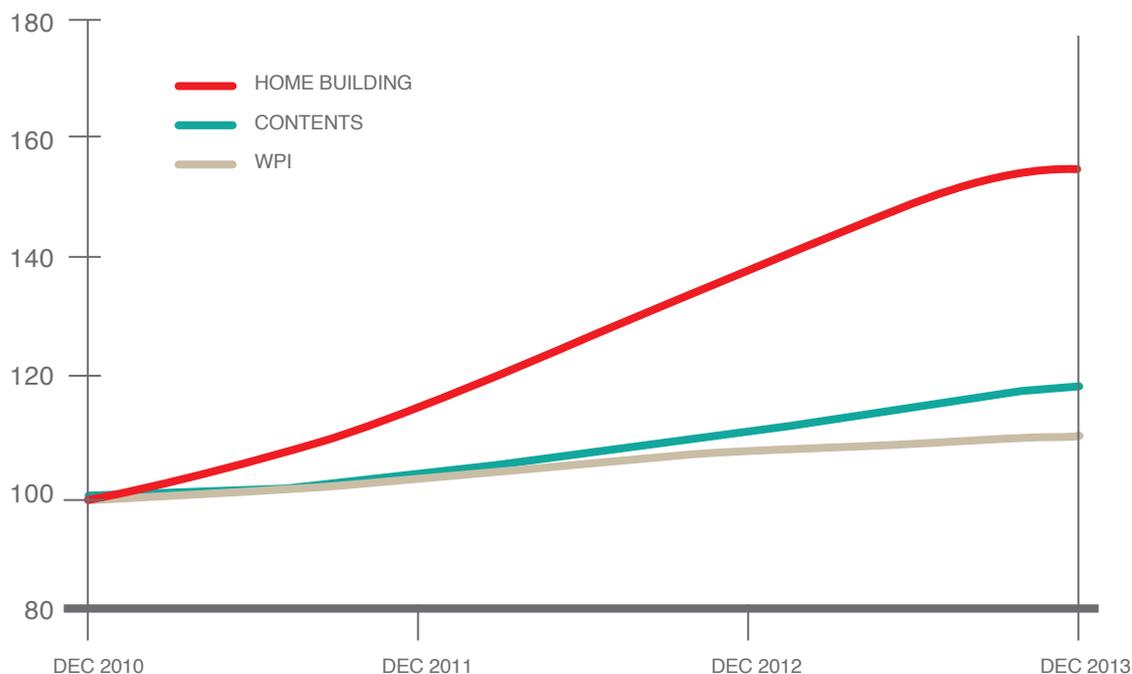
- The average home building insurance premium has increased by 57% over the last 3 years. ¹
- The average home contents premium increase is 18.2 % over the last 3 years. ²
- With wages growth of 9.9 % over the last 3 years, home insurance premiums have grown more than 5 times faster, and contents premiums around 2 times faster than wages, over the same period. ³

Key Issues

There is limited public data available to inform consumers on the growth in home building and contents insurance premiums, average premiums, the number of claims made annually, average or total value of claims annually, or the number of claims paid versus refused annually. Some insurers provide partial reporting of their own results and price comparisons, however limited comprehensive data is publicly available for analysis.

The following analysis is based on the limited data made available by the Insurance Council of Australia (ICA), a peak body which according to their website represents 90 per cent of the total premium income written by the private sector general insurers. ⁴

Chart 1. Growth In Home Building Premiums, Content Premiums & The Wage Price Index Between December 2010 & December 2013



Analysis

Home and contents insurance premiums have risen significantly in recent years. Based on an index of home building premiums, the average home building insurance premium has increased by 57 per cent over the last 3 years (see chart 1), and have more than doubled over the past 5 years.⁵

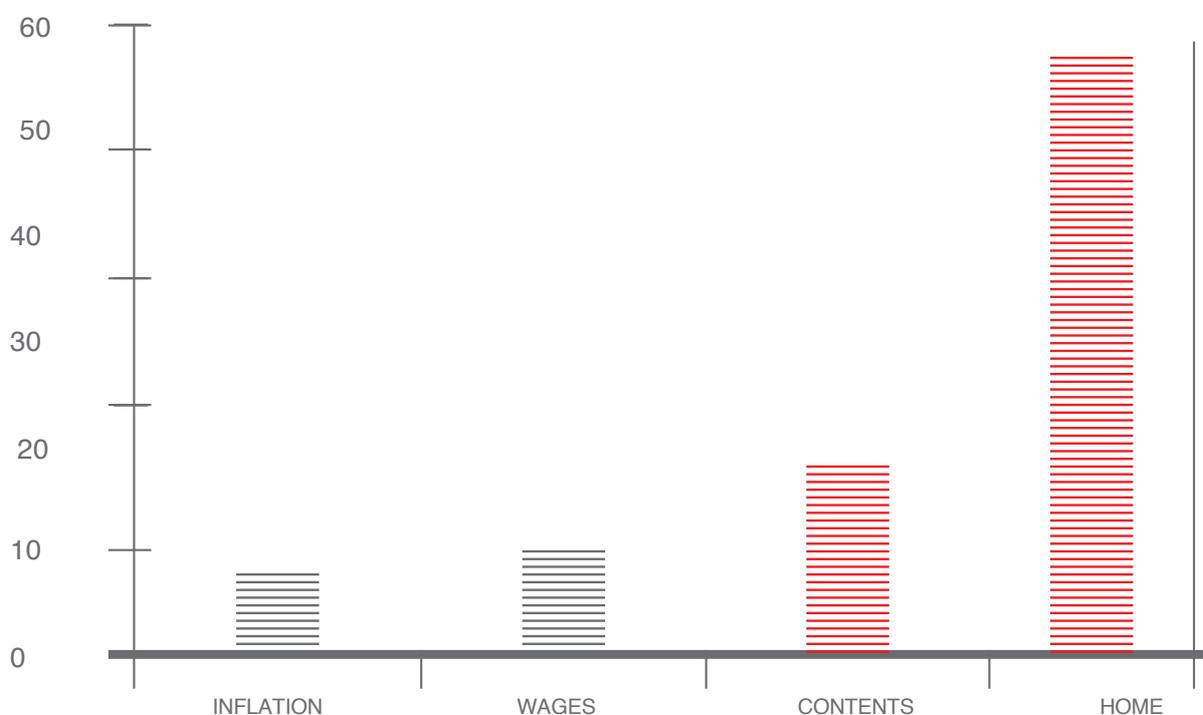
Contents insurance premiums have also risen substantially, albeit to a lesser degree, increasing by 18.2 per cent over the last 3 years (see chart 1).⁶ Over the last five years, average contents premiums have increased by almost more than a third, between December 2008 and December 2013.

This compares to an increase in wages of less than 10 percent over the same period, meaning that home

insurance has outstripped wages growth by a factor of 5, and contents by have increased by around twice as much as wages (Chart 2).⁷

While the available data is limited, the findings are broadly consistent and even conservative when compared with other published figures. For instance, according to Canstar, a research company that compares a range of products, there has been a 19.4 per cent rise in home and contents insurance in the past 3 years 2011-2013, which translates to an average premium increase of \$283 in NSW.⁸ According to the Deloitte JP Morgan General Insurance Industry Survey, premiums for home insurance rose by an average of 29 per cent over the 3 years from 2009-2011.⁹

Chart 2. Growth in Inflation, Wages, Content premiums & Home Building premiums over three years, Dec 2010 to Dec 2013



Source for inflation and wages growth: ABS data

Source for Home building and contents insurance data: Underlying data is Insurance Statistics Australia, available at Insurance Statistics Australia, available at: <http://www.insurancecouncil.com.au/industry-statistics-data/gi-statistics/contents> and <http://www.insurancecouncil.com.au/industry-statistics-data/gi-statistics/building>

Other findings

Consumers and others have raised the concern that insurers are charging higher premiums to cover the loss of household goods despite the steep decade-long drop in costs for those goods.¹⁰ ICA responded to this claim with the argument that the prices of many individual items may have fallen in recent years, but households own more of them, noting that the average contents policy claim size has soared more than 30 per cent in the three years to June (Insurance Statistics Australia trend data).¹¹

The increase in the average size of claims is confirmed by the available data published by ICA. The average size of claims has experienced three substantial peaks in the last five years, with average claims more than doubling in 2010. These appear to be largely due to a number of bad years, due to fires and floods. Nevertheless, since the peak of 2010 however the average claims size has dropped by a quarter (see Chart 3), while premiums have continued to grow.

Interestingly, according to data provided by ICA, the frequency of claims has remained broadly steady, and is actually 10 percent lower in 2013 than it was in 2001 (Chart 3). This is despite fires and floods, which indicates that the increase in average cost of claims has been solely due to larger claim size. This seems at odds with the usual story of greater incidences of natural disasters, and perhaps reflects that these events have been occurring in places of higher wealth, where the cost of damages is larger.

Combining the growth in frequency of claims and growth in average cost per claim gives the growth average cost per policy (see Chart 4). The data provided by the insurance bodies do not allow a direct comparison of the dollar value of premiums versus costs, only the change of each series relative to 2001. Thus, periods where costs are higher than premiums do not necessarily relate to losses on the part of the insurance companies, rather they simply indicate that claims had grown by more than premiums in those years. Nevertheless, this analysis indicates that while costs have fallen over the past three years, from their peak in 2010, premiums continue to increase.

Chart 3. Average Claims Size & Frequency 2001 to 2013

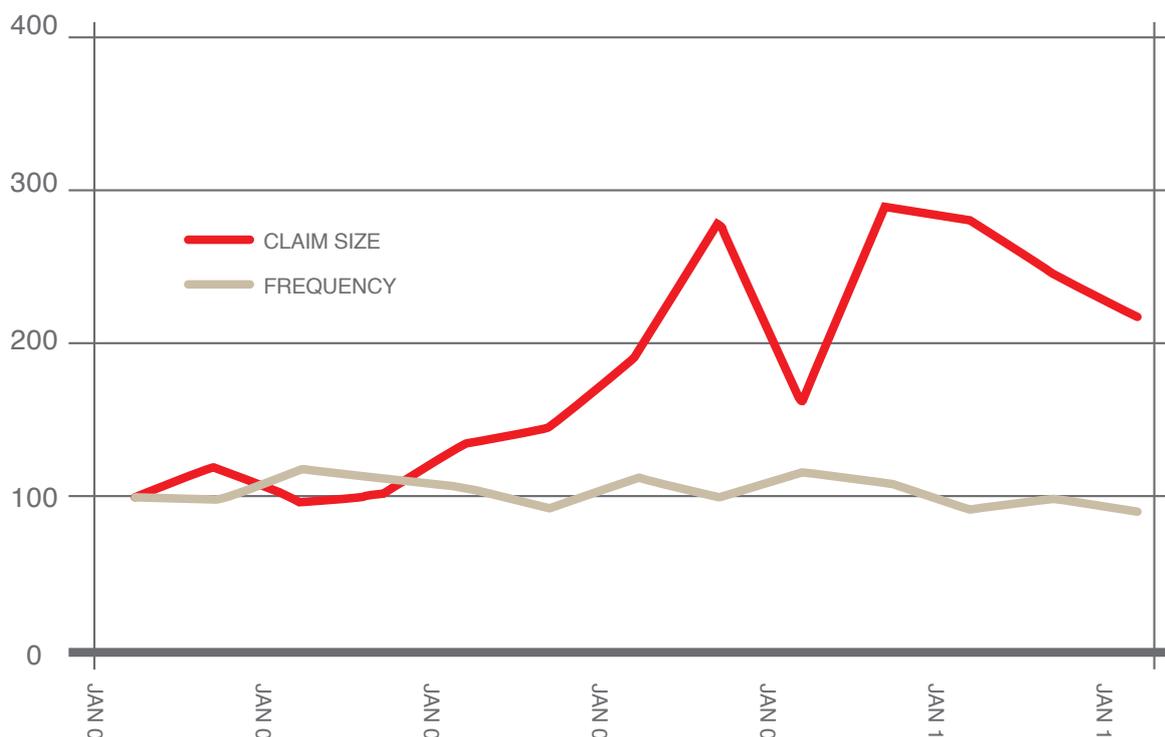
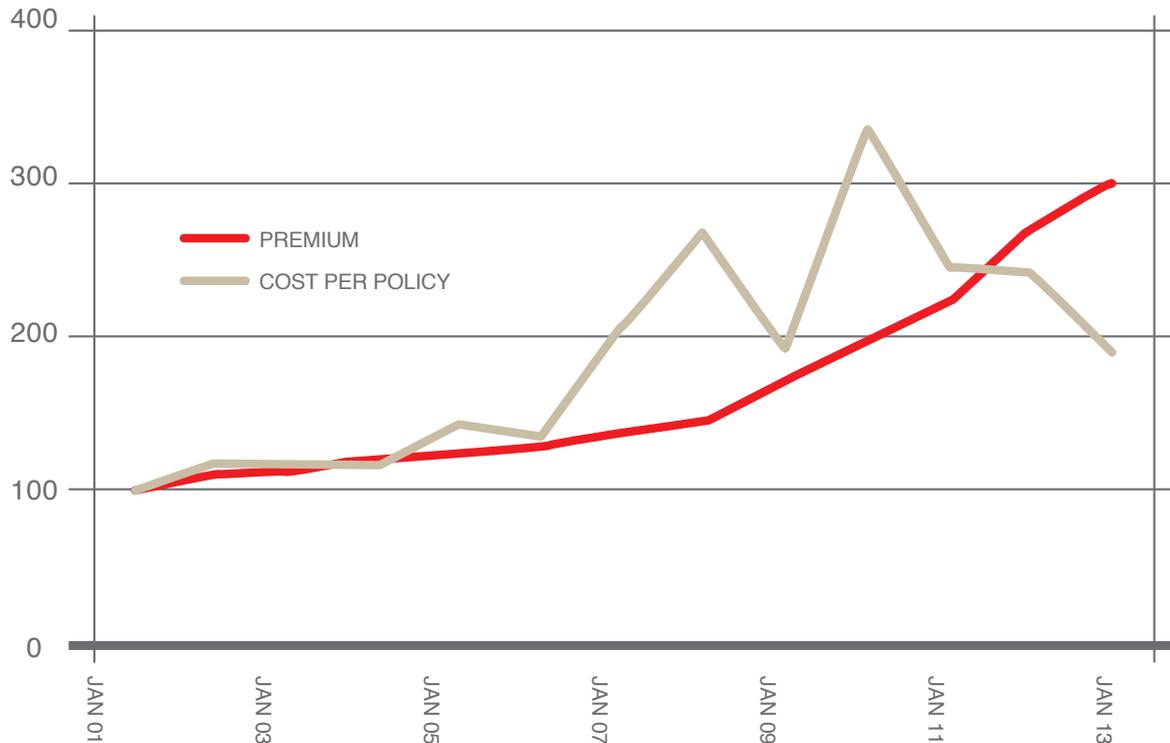


Chart 4. Average Premium Increase & Cost Per Policy 2001 to 2013



¹ Dec 2010 to Dec 2013. Growth derived from an index of home premium premium costs; Insurance Council of Australia data at <http://www.insurancecouncil.com.au/industry-statistics-data/gi-statistics/building>

² Dec 2010 to Dec 2013. Growth derived from an index of content premium cost; Insurance Council of Australia - <http://www.insurancecouncil.com.au/industry-statistics-data/gi-statistics/contents>

³ ABS Wage Price Index, Feb 2014, [http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/A1C3224B1B0BD85DCA257C83000E0972/\\$File/63450_dec%202013.pdf](http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/A1C3224B1B0BD85DCA257C83000E0972/$File/63450_dec%202013.pdf)

⁴ See the Insurance Council of Australia's website at: <http://www.insurancecouncil.com.au/>

⁵ Dec 2010 to Dec 2013. Growth derived from an index of home premium premium costs; Insurance Council of Australia data at <http://www.insurancecouncil.com.au/industry-statistics-data/gi-statistics/building>

⁶ Dec 2010 to Dec 2013. Growth derived from an index of content premium cost; Insurance Council of Australia - <http://www.insurancecouncil.com.au/industry-statistics-data/gi-statistics/contents>

⁷ ABS Wage Price Index, Feb 2014, [http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/A1C3224B1B0BD85DCA257C83000E0972/\\$File/63450_dec%202013.pdf](http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/A1C3224B1B0BD85DCA257C83000E0972/$File/63450_dec%202013.pdf)

⁸ Daily Telegraph - Premium rise as price of stolen goods plummets, September 2 2013: <http://www.dailytelegraph.com.au/news/nsw/premiums-rise-as-price-of-stolen-goods-plummets/story-fni0cx12-1226708579788>

⁹ Home and Contents Insurance a burning issue, 16 February 2011 <http://news.domain.com.au/domain/real-estate-news/home-and-contents-insurance-a-burning-issue-20110216-1avyb.html>

¹⁰ Daily Telegraph, Editorial – Premium prices for Insurance, September 2 2013 <http://www.dailytelegraph.com.au/news/opinion/premium-prices-for-insurance/story-fni0cw15-1226708560728>

¹¹ Insurance Council Of Australia, Media Statement, The facts on contents Insurance, Sep 2 2013, <http://www.insurancecouncil.com.au/assets/020913%20Contents%20insurance%20facts%20FINAL.pdf>