



Get Smart About Water Leaks

Chubb Insight Report

CHUBB®

Masterpiece

Foreword



Greg Hicks
Head of Personal Risk Services
Asia Pacific, Chubb

A review of Chubb’s proprietary data for the past 10 years, reveals that the impact and cost of water damage losses in Australian homes is on the rise. While there has been extensive research into more newsworthy threats, like floods, bushfires and other natural disasters, there’s little available information on the more common peril of internal water damage.



Michelle O’Dowd
Underwriting Manager
Australia and New Zealand
Personal Lines, Chubb

To address the lack of information on this significant threat to homeowners in Australia, we undertook research into water leak damage and uncovered some interesting facts about these losses, including major causes and how simple measures can help homeowners avoid costly water damage.

By sharing our research findings, we hope to arm homeowners with useful insights that will help them make informed decisions to protect their homes in the future. We hope this information also serves as a trigger for insurance brokers to start a conversation with clients who may have overlooked this threat to their homes.



Internal water damage in Australian homes is now a more common and costly risk than fire and burglary.*

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The surprise risk that could sink your home and finances

Each year in Australia, the headlines frequently refer to the massive damage bills created by natural disasters - most notably cyclones, bushfires and flooding. Living in Australia, we almost take these headlines for granted, and there is rarely a summer where we are spared the devastation of 'mother nature'.

For most Australian homeowners however, it's not the threat of external flooding from over-flowing rivers and creeks that is the most likely threat to their properties. In fact, it is water related but much closer to home, literally - and the threat is often silent and largely overlooked by homeowners: internal water leak damage.

While water damage in the home does occur after heavy rain, internal problems arise from a myriad of relatively simple causes, including

blocked pipes, damaged roofs, clogged drains, old or worn out plumbing and, most commonly, damaged flexi hoses. These hoses are used on everyday household appliances, such as washing machines, dishwashers, plumbed refrigerators and mixer taps.

So, while most homeowners focus on protecting their homes against theft and fire through locking devices, alarm systems and smoke detectors they are ignoring a far greater underlying threat in their homes - water damage.

The rising cost of water damage to homes

According to research by Chubb¹, instances of water damage have been rising dramatically, and in the past 10 years the frequency of sudden water pipe bursts has nearly doubled.

In fact, internal water damage in Australian homes is now a very common property damage-related claim and is costlier than all other home risks, including fire and burglary².

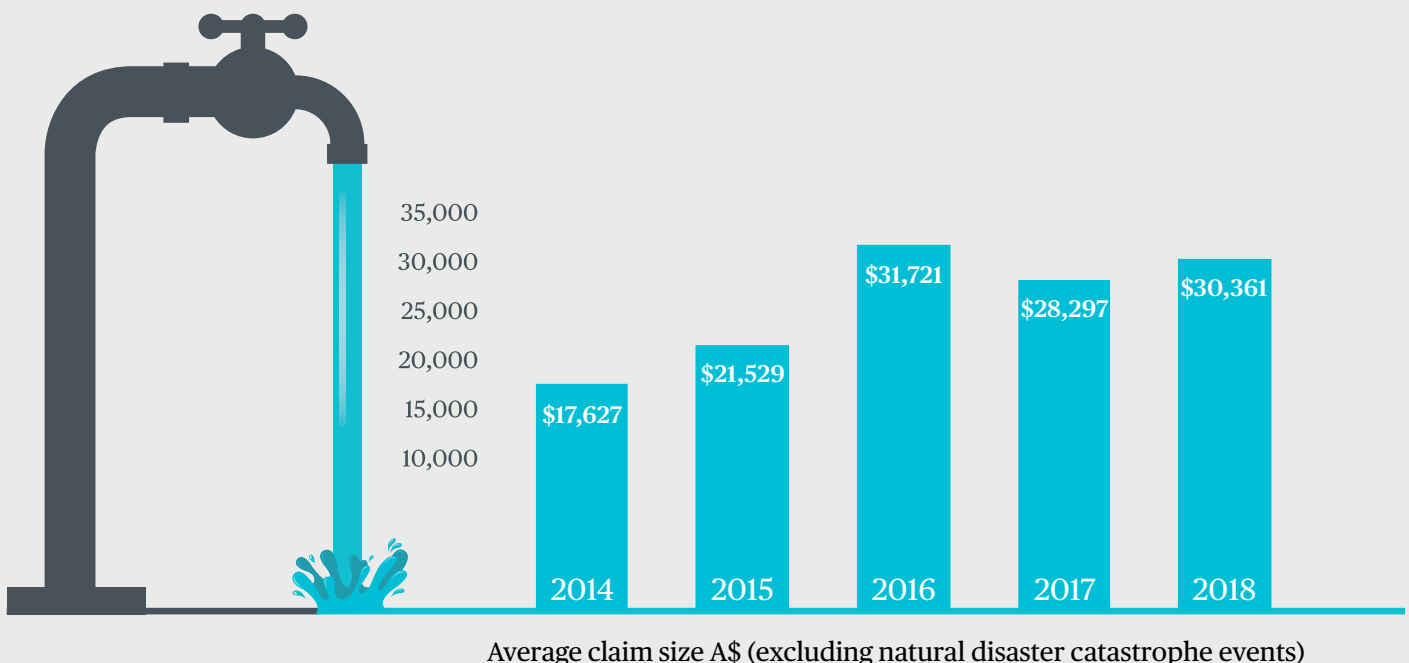
Added to this increase in frequency, water damage claims are getting larger. In the US, where Chubb has been tracking claims from water damage for many years, it has been reported that the frequency of claims causing more than US\$500,000 of damage has doubled since 2015 and tripled for claims costing over US\$1,000,000.

A report by Verisk Analytics' ISO unit found each year from 2013 to 2017 one in 50 homeowners in the US filed a water damage claim. In 2017, the total amount of insurance payouts for water was US\$13 billion with the average claim cost around US\$10,000³.

In Australia, Chubb's research reveals the average claim from water damage has increased by 72% in the past five years, from A\$17,627 in 2014 to A\$30,361 in 2018⁴.

Water damage claims are becoming more severe and these costs are expected to increase further as homeowners have more plumbed-in appliances in their homes, and as construction of new homes include more bathrooms and laundries on upper levels, as well as open-plan kitchens and family areas.

Average water damage claims have been rapidly increasing in Australia⁵



1 Chubb Homeowners' Water Risk Survey conducted in the US in 2017.

2 Chubb Insurance comparing cost of claims from various causes over the last six years (2013 - 2018) excluding natural disaster catastrophe events.

3 www.insurancebusinessmag.com/us/news/breaking-news/study-water-damage-claims-surging-161741.aspx

4 Chubb Insurance average size of "attritional" or everyday claims (excluding natural disaster catastrophe events) for Australia, 2014 - 2018.

5 Chubb Insurance average size of "attritional" or everyday claims (excluding natural disaster catastrophe events) for Australia, 2014 - 2018.

Water damage claims compared to other domestic property claims in Australia over the last six years

Water damage not only causes expensive damage to floors, carpets, furniture and ceilings, it often results in families having to vacate their homes for extended periods while repair work takes place. This can lead to large and unexpected increases in living expenses, which may or may not be claimable depending on the specific home insurance policy.

One of the key findings from an analysis of Chubb's Australian claims data is that high value homes are more susceptible to water damage as they are likely to have multiple wet areas and appliances, increasing the likelihood that one will fail. In addition, high value homes often have custom finishes to timber floors, joinery and cabinetry, and this can significantly increase repair costs.

Masterpiece, Chubb's premium home insurance policy, does not limit the cost or duration of increases in living expenses, whereas other insurance products may place limitations on both of these elements.

Water damage claims compared to other domestic property claims⁶



The leading causes of water damage in Australian homes

The four leading causes of water damage in Australian homes⁷ are:



Burst flexi hoses

A flexi hose is a plastic tube with steel braid around it. As these hoses are pressurised, a failure of the hose can result in a significant amount of water suddenly entering the home which can result in lengthy and expensive repairs.

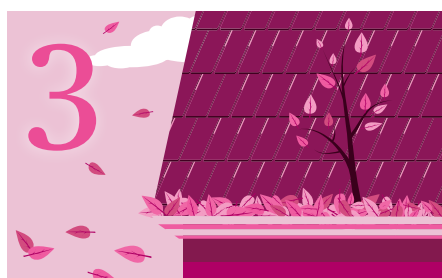
Flexi hoses are often used on mixer taps, toilets, washing machines and dishwashers. Plumbed fridges and water filters also use flexi hoses.

Flexi hoses usually burst because they were damaged during installation, or may have suffered wear and tear, or household chemicals and cleaning agents have been stored nearby and have corroded the hose prematurely. The typical manufacturer's warranty is 10 years so replacement should take place within this time by a licensed plumber.



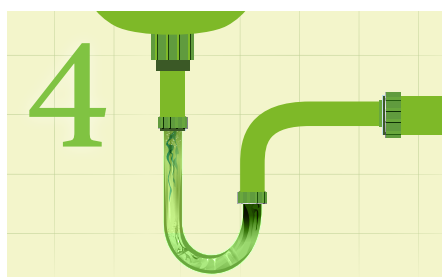
Water damage by appliances

Damage caused by water escaping from household appliances is also a common issue in homes. Overflowing sinks, faulty washing machines and dishwashers can cause serious damage to carpets and other household contents.



Blocked gutters

During heavy rainfall, problems occur due to blocked eaves and drain pipes which then back up and overflow down internal walls and cause water damage.



Blocked drains

Blocked drains often occur after heavy rain or from tree roots or items like paper towels blocking drains. The result can be sewerage and storm water causing damage within the property.

Homeowners protect for threat from fire but not water

Research by Chubb in the US⁸ found:



of homeowners have smoke and/or fire alarms installed in their homes

but only



of Chubb insured residences have water shut-off devices.

The same Chubb survey found that 90% of homeowners believe they are doing an “ok” job of protecting their homes but much of this focus was on protecting homes from fire and burglary. In the same survey only 19% of homeowners recognised internal water leak damage as the most concerning home threat.

“Despite water damage being one of the most common property damage-related claims, homeowners are not well informed when it comes to preventing water-related losses.”

Greg Hicks
Head of Personal Risk Services
Asia Pacific, Chubb.

Hicks explains that while there are no figures for the number of homes in Australia with water shut-off devices, it is likely to be a lower figure than the US because this is a fairly new device here. “It is actually surprising that while all homes in Australia are required to have at least one smoke detector fitted (there are State specific regulations), very few people are protected against the threat of water damage,” he says.

There are actually two main components to water leak detection devices: firstly, water sensors that detect a water leak in its infancy and, secondly, water shut-off devices which automatically shut off the water supply reducing the amount of water which can escape to cause damage. Each component can operate independently, however with the two components combined, the likelihood of any water leak can be significantly reduced. Chubb strongly recommends that all homeowners consider installing these devices.

WA and VIC at highest risk of water damage

With the cost and frequency of internal water damage on the rise, homeowners across Australia can’t be complacent. “While all Australian homeowners need to worry about water leaks, our research reveals that those living in Western Australia and Victoria are particularly susceptible. In fact, homeowners in these states are 20% more likely to make an internal water leak claim than any other homeowner,”⁹ says Hicks.

“The reason for these state-specific differences is something Chubb continues to investigate. We believe some of the factors contributing to the variations include differences in construction methods and building codes, climate differences, such as more frequent or prolonged rainfall, greater reliance on deciduous trees for landscaping (which results in gutters and downpipes being blocked more often) or possibly even differences in the number of wet areas in the average home in each state,” says Hicks.

Did you know:



11% of water damage claims in Australia occur in January, the time when most Australians are on holidays.

⁸ Chubb Homeowners’ US Water Risk Survey.

⁹ Internal water damage claims made by Chubb Masterpiece clients 2013 - 2018.

“The irony is we prepare for holidays by cancelling newspapers, turning lights off and setting our home alarms without giving any thought to possible water damage. Yet by installing one central system to monitor the flow of water across your home and automatic shut-off valves can significantly reduce the amount of damage in the event of a leak.”

Michelle O’Dowd
Underwriting Manager
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Personal Lines, Chubb.

Water damage greatest during holiday periods

“While water damage is a year-round threat, we know from our claims data that it often happens when a house is unattended. The time between when a leak occurs and when it is discovered is the single greatest factor in determining the extent of damage,” says Michelle O’Dowd, Underwriting Manager, Australia and New Zealand Personal Lines, Chubb. “As a result, leaks that occur while you are away from home result in greater amounts of damage both in terms of cost and severity”.

O’Dowd says that in Chubb’s 2017 Water Risk Survey of 1,200 US homeowners, there was a strong correlation between

water leaks and holiday periods, more so than at any other time of the year. “While we haven’t conducted a similar survey here, our claims data shows that January, the time most Australians are on holidays, is when water damage claims peak with over 11% of claims from this source in this month alone”.

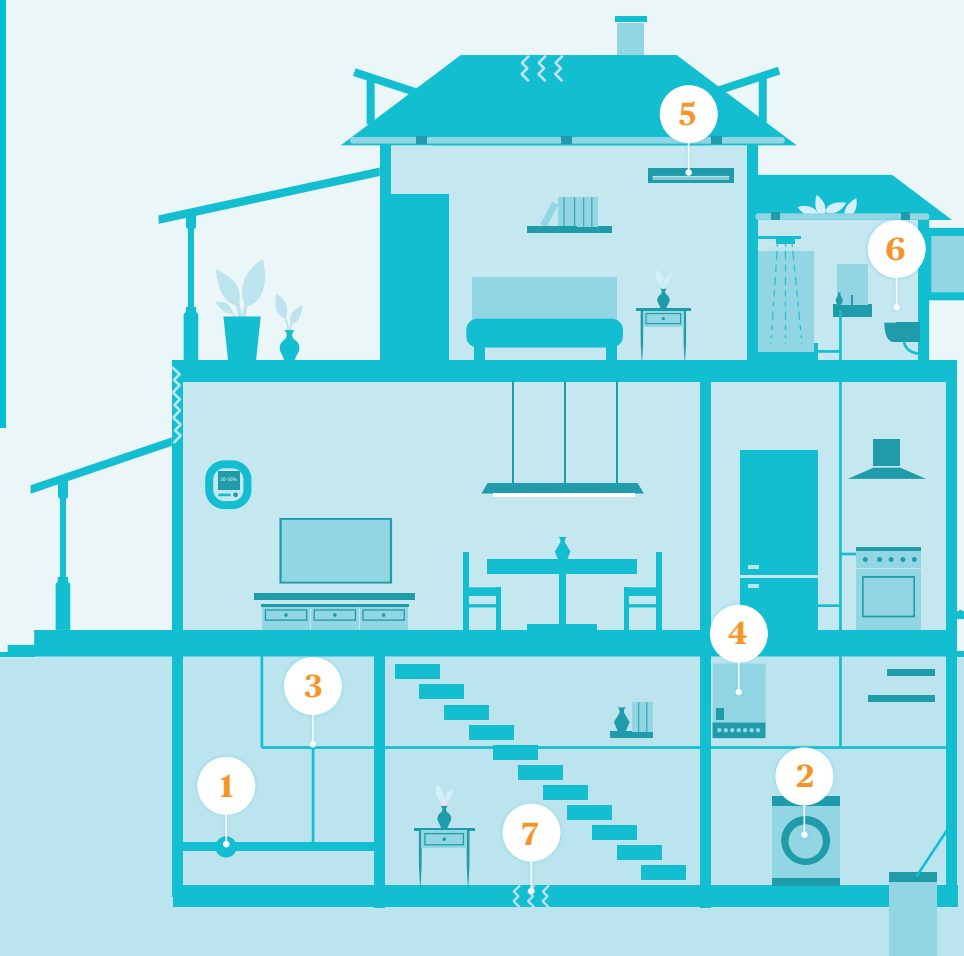
O’Dowd says that Chubb estimates only 22% of homeowners in the US shut off their water main before going on holidays¹⁰ and believes this figure is much lower in Australia.



Simple ways to keep your home safe and dry

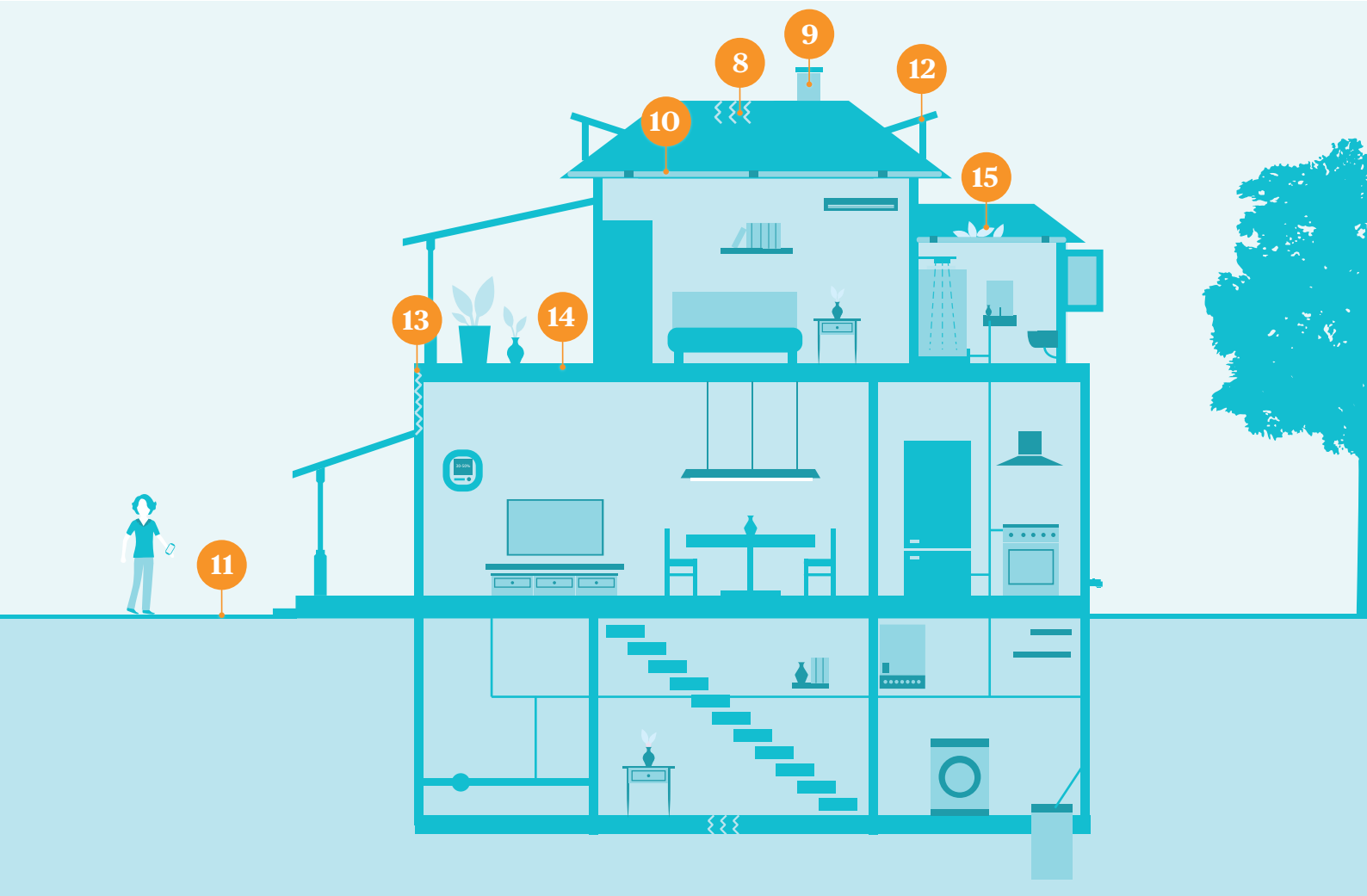
Tips for protecting your home's interior from water damage:

To minimise the chance of internal water leak damage, homeowners should take proactive steps to protect their homes. This is especially the case for homes with a history of water damage that could face difficulty getting insurance or be more costly to insure.



- 1 Of greatest importance, know where your **shut-off valves** are for the main water supply in case of an emergency, and consider shutting off the water supply if you will be away from home for a week or more.
- 2 **Flexi hoses** pose a serious risk of bursting. Inspect appliances that use flexi hoses, such as icemakers, washing machines and dishwashers, and replace the flexi hose every 10 years.
- 3 **Inspect your plumbing** water lines and waste line for leaks, damage or corrosion.
- 4 **Hot water systems** have a lifespan of 7 to 10 years, so keep an eye out for puddles and be ready to replace the system.
- 5 **Check air conditioning units** and keep drip trays clean and drain lines unobstructed.
- 6 Ensure the **watertight seal in baths and shower recesses** is maintained.
- 7 Periodically check your home's foundation walls and floors for cracks that might allow **water seepage** and check for poor soil drainage.

Tips for protecting your home's exterior from water damage:



- 8** **Inspect your roof** periodically especially after severe storms.
- 9** **Check flashing** at the intersection of all roof and wall lines and roof penetrations such as chimneys and skylights.
- 10** **Check for blocked eaves and gutters** and clear periodically.
- 11** **Soil should be graded** away from a home's foundations so water flows away during heavy rain.
- 12** **Inspect windows and doors** for weather stripping.
- 13** **Check exterior paint** for peeling and cracking.
- 14** **Inspect balconies and terraces** to ensure drains are free of debris and no signs of water leakage into the home.
- 15** Regularly **remove leaves and other debris from exterior drains** to prevent water backing up and coming into the home.

Through many years of dealing with claims for water damage in clients' homes, Chubb has witnessed how a significant amount of water can leak quickly and often quietly with devastating results. In the case of one Chubb client, the family slept through the entire event and woke to see a large part of their home ruined.

The following are two examples of high-end homes insured by Chubb Australia, both with bespoke features and furnishings which were severely impacted by water damage resulting in costly restoration work.

How Chubb has assisted clients with water damage in their homes



Client 1

One of Chubb's long-term clients owns a beautiful historic home as part of a property portfolio.



The claim:

On entering the ground floor kitchen, a housekeeper discovered water pouring out of a kitchen cupboard and found that it had spread across parquet flooring in the open plan kitchen and leaked through the floor into the lower ground floor and basement.

The leak was caused by a burst connection where a pipe had been plumbed into an appliance. While the housekeeper acted quickly, the water had already cause significant damage to floors, ceilings, joinery and contents.



The insurance policy response:

The Chubb adjuster quickly assisted by attending the site and establishing the extent of the damage. The owner's builder was engaged to carry out the extensive repairs and, while it had been tenanted at the time of the loss, no one was able to live in the property for 18 months while the work was carried out.

Chubb was able to cover the cost of the extensive repairs as well as reimburse the owner for loss of rental income while the repairs were carried out. The final cost for restoration and loss of rental income came to A\$2.5 million.



Client 2

Chubb's client lives in a Sydney harbour-side suburb in a modern, renovated home.



The claim:

While the client was sleeping, a hot water pipe burst within the ceiling cavity of the ground floor lounge room. When the client woke the next morning, the water had pooled in the lounge room and flowed to a lower level via the internal staircase. The extensive damage included oak floor paneling, kitchen walls and cabinets, an internal lift, floor tiles, ceilings and expensive furniture and rugs.



The insurance policy response:

The claim was made through Chubb's after-hours helpline. Chubb met with the owner's contractors and agreed on a repair strategy.

Chubb advanced part of the claim quickly so the bespoke furnishings could be re-made without delay and also worked with the insured's preferred contractor on a "do and charge basis" so that repairs could happen quickly. The repair work took close to 12 months and cost A\$750,000.

About Chubb Masterpiece

Chubb's Masterpiece policy provides coverage for successful individuals with significant assets to protect, who appreciate superior levels of cover and service. Masterpiece provides cover for homes, contents, fine art and jewellery, family protection and personal liability.

Additionally, Chubb can arrange for a Masterpiece risk consultant to visit your home to determine the amount of coverage you need, advice on water damage and fire prevention, as well as suggestions for protecting your valuables from damage and theft.

More information can be found at www.chubb.com/au-masterpiece

About Chubb in Australia

Chubb is the world's largest publicly traded property and casualty insurer. Chubb, via acquisitions by its predecessor companies, has been present in Australia for 100 years. Its operation in Australia (Chubb Insurance Australia Limited) provides specialised and customised coverages including Business Package, Marine, Property, Liability, Energy, Professional Indemnity, Directors & Officers, Financial Lines, Utilities as well as Accident & Health, to a broad client base, including many of the country's largest companies. Chubb also serves successful individuals with substantial assets to protect and individuals purchasing travel and personal accident insurance.

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