Financial Rights
LEGAL CENTRE

Submission by the
Financial Rights Legal Centre

Victorian Department of Health and Human Services

Addressing non-insurance and underinsurance for emergencies in Victoria, April 2017

May 2017

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About the Financial Rights Legal Centre

The Financial Rights Legal Centre is a community legal centre that specialises in helping consumer's understand and enforce their financial rights, especially low income and otherwise marginalised or vulnerable consumers. We provide free and independent financial counselling, legal advice and representation to individuals about a broad range of financial issues. Financial Rights operates the National Debt Helpline, which helps NSW consumers experiencing financial difficulties. We also operate the Insurance Law Service which provides advice nationally to consumers about insurance claims and debts to insurance companies. Financial Rights took over 25,000 calls for advice or assistance during the 2015/2016 financial year.

Financial Rights also conducts research and collects data from our extensive contact with consumers and the legal consumer protection framework to lobby for changes to law and industry practice for the benefit of consumers. We also provide extensive web-based resources, other education resources, workshops, presentations and media comment.

This submission is an example of how CLCs utilise the expertise gained from their client work and help give voice to their clients' experiences to contribute to improving laws and legal processes and prevent some problems from arising altogether.

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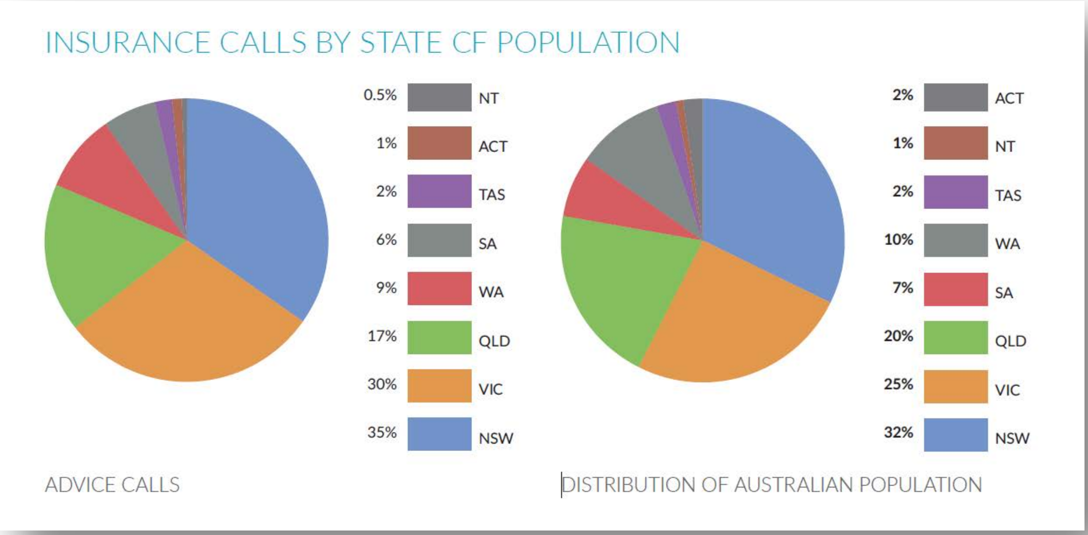
National Debt Helpline 1800 007 007
Insurance Law Service 1300 663 464
Aboriginal Advice Service 1800 808 488

Monday – Friday 9.30am-4.30pm

Introduction

Thank you for the opportunity to comment on the Discussion Paper into Non-insurance and underinsurance for emergencies in Victoria. The Financial Rights Legal Centre operates a national Insurance Law Service which gives free legal advice to callers from every state. In the 2015-2016 financial year we took over 8300 insurance-related advice calls and emails. Thirty percent of those calls came from Victorians even though Victoria only holds 25% of the Australian population.



Through our Insurance Law Service we have gained significant insight and expertise into insurance-related consumer complaints, especially from vulnerable and low income Australians. Our responses to the discussion questions below are informed by that expertise.

Specific Responses to Discussion Questions

Section 2. The problem: financial loss and emergency recovery

2.1 To what extent is there an issue among low-income Victorians with unrecovered/unrecoverable financial losses following emergencies? How serious is any such issue?

2.2 To what extent is improving either or both the uptake and/or adequacy of insurance coverage an answer to the issue of exposure to such losses? What are some other options?

2.3 What would be appropriate levels and types of community, finance sector and/or government actions to improve insurance coverage among low-income and vulnerable Victorians?

2.4 In relation to this project, what would success look like? For example, greater resilience among low-income Victorians.

No comments

Section 3. Taking out insurance: financial resilience

3.1 How can the adoption of financial inclusion policies and practices help improve the affordability and accessibility of insurance products for low-income Victorians?

If insurers were required to meet an inclusion benchmark, there would be greater industry commitment to create affordable products.

At the present, only IAG and Suncorp have committed significant resources into the creation of "affordable" or low cost insurance products to meet the needs of low income consumers.

The whole industry should be encouraged to have in place:

- Products designed for low income consumers;
- Options in existing policies to address the needs of low income consumers;
- Improve product design and distribution generally and have in mind low income consumers

Consideration should also be given to an insurance scheme of last resort.

3.2 What are the opportunities for collaboration between government, the community sector and the insurance industry to improve financial inclusion and resilience among low-income Victorians?

Funding the Insurance Law Service

One important opportunity for collaboration between government and the community sector is to ensure the continued operation of the Insurance Law Service ('ILS'). The ILS is the only national, free and independent insurance advice service for consumers in Australia. A project of the Financial Rights Legal Centre, the ILS has been providing free legal services in relation to insurance to Australians affected by adversity since 2007. Whether affected by a motor vehicle accident, theft, illness, injury or especially natural disaster consumers of insurance are almost invariably doubly traumatised when their insurance claim does not run smoothly. In this regard consumers benefit enormously from independent advice. Insurance is an important risk management product for ordinary Australians, but when a person's claim is refused the results can be financially catastrophic. This important service for your constituents is currently under threat.

The ILS is an extremely efficient and cost-effective way of enhancing consumer access to justice in relation to insurance for natural disasters. The ILS serves as a key repository of insurance law expertise and data regarding the consumer experience of insurance claims and disputes. We have extensive resources and experience in dealing with insurance issues surrounding natural disasters and can serve as the national coordination and contact point for insurance advice in the wake of natural disasters across Australia. We have already collaborated successfully with other services in responding to the Queensland floods of 2011, and the recent Blue Mountains bushfires in New South Wales.

The ILS receives very modest government funding that does not even come close to meeting demand for the service. Temporary one-off funds (including via a process overseen by the Fire Services Levy Monitor) have enabled us to answer nearly twice as many calls over the past three years (from 4,500 to over 8,000 per annum), with 30% of calls coming from Victoria. This service can only continue to provide free legal assistance to insurance consumers in Victoria and across Australia with stable funding which includes pro-rata assistance from the States. We believe this service has much to offer the residents of Victoria in return for a very modest contribution.

Section 4. Taking out insurance: risk awareness

4.1 What are some examples of existing and potential targeted approaches to improve the understanding among low-income people of hazard risk and financial risk, and the management of both?

No comments

4.2 What is the effectiveness of hazard risk information, whether provided via websites or other means, in improving the risk awareness of low-income people?

As the discussion paper points out, there is a lot of information already available online regarding natural disasters, hazard risk and the importance of adequate insurance coverage. There are a number of websites where consumers can go to use building calculators (including ASIC's MoneySmart website) and most major insurers have calculators on their sites as well.

Clearly there is always room for improvement and to ensure that literate and motivated consumers can find trusted sources of information. However, Financial Rights does not believe that more hazard risk information being available to consumers online would necessarily be effective at improving the risk awareness of low-income people.

In our experience advising callers to our Insurance Law Service, hazard risk information is only effective if it is provided to consumers at specific useful times. For example, research has shown that the renewal letter is the most commonly used and highly rated source of information, and presents opportunities to provide targeted information.[1] This indicates that hazard risk information could be effective if included on insurance renewal notices. The most important thing is that this information should be consumer tested, both in terms of content and the timing of its provision.

Another effective means of communicating hazard risk information to people would be to do away with the 'No Advice' model under which most insurers operate. Generally speaking Insurers sell insurance products under a general advice or no advice distribution model. This means that sales staff promote the product but do not tell the consumer whether or not it is suitable or meets their needs. Consequently consumers are provided with insufficient or inadequate information to inform their decisions or to engage with the complexities of these products.

In its 2016 *Report 492: A Market that is failing Consumers* Report into add-on insurance ASIC found that all insurers sold add-on insurance products predominantly through a general advice model as defined under s766B of the Corporations Act 2001 (Corporations Act), although some insurers also used a no advice model where only factual information is provided to the consumer.[2]

The use of these models means that intermediaries:

a) are under no obligation to ensure the product is suitable or meets the consumer's needs; and

b) receive commission payments that could create conflicts of interest.

A general advice model is likely to have adverse outcomes for consumers in the add-on insurance context as it allows car dealers to promote the sale of the products without considering whether the consumer needs cover, and then places the responsibility for poor purchasing decisions on the consumer. Consumers must review a large amount of information and documentation to assess which add-on insurance products are most suitable for them.[3]

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[1] Consumer Research on General Insurance Product Disclosures, Research findings report, February 2017; available at: http://www.insurancecouncil.com.au/assets/report/2017_02_Effective%20Disclosure%20Research%20Report.pdf

[2] http://download.asic.gov.au/media/4042960/rep-492-published-12-september-2016-a.pdf

[3] p.33 http://download.asic.gov.au/media/4042960/rep-492-published-12-september-2016-a.pdf

ASIC Report 415 Review of the Sale of Home Insurance made a number of observations regarding insurer practices that are insufficient and suggestions for improvement. This included that:

- sales staff were sometimes poorly trained in relation to product features and/or trained to avoid giving any explanations or guidance no advice model.
- the sales process was designed to meet the insurer's needs rather than promote understanding of the product for the consumer;
    - insurer's telephone scripts could set out better ways for insurers to convey to their customers: Insurance features and exclusions;
    - How cap and limits operate in practice (through the use of hypothetical examples);
    - Include a plain English explanation of what the sum insured means and how it should be estimated with calculator style questions or at least references to available calculators.

ASIC Report 492 examined the training standards for those who sell financial products including insurance and found that Add-On insurance, for example, fell under a tier that required lesser requirements.

Financial Rights understands that the reason the no advice model has been adopted has been because the compliance of advice provisions under the *Corporations Act 2001* on a large scale is costly and time consuming. However this bottom-line focussed approach is producing poor consumer outcomes industry-wide. Financial Rights notes that some general insurance brands have, at least in the past, provided General Advice (for example, business insurance products sold by AAMI and GIO) and Personal Advice (for example Shannons and APIA, the latter providing targeted products to over 50s).[4] In 2011 Suncorp stated that it was:

one of the few general insurance companies that currently provide personal advice to the retail consumer. The general insurance industry has generally found that the advice provisions of The Corporations Act are too onerous and costly to be successfully implemented. Indeed the provision of personal advice within our business is only viable in the unique operating environment of our niche brands, Shannons and Apia.

Personal Advice models are obviously viable in a financial sense at the very least in some circumstances. Where it is not viable it is however leading to poor outcomes for consumers. This is a major problem. Financial Rights is of the view that insurers need to give serious consideration to whether the no advice model remains appropriate, in all circumstances.

[4] Suncorp Submission to the draft Future of Financial Advice (FOFA) legislation , September 2011 https://futureofadvice.treasury.gov.au/content/consultation/corporations_amend/submissions/Suncorp.pdf

4.3 To what extent may improved hazard or financial risk awareness translate into greater uptake of insurance?

4.4 To what extent may different approaches be required for different segments of the target audience? Home owners and renters? Young people and elderly people? What are some specific approaches that could be adopted for different target audiences?

4.5 Aside from providing hazard and financial risk information, what are some other ways of communicating the importance and value of insurance to low-income and other vulnerable Victorians?

No comments

Section 5. Taking out insurance: the cost

5.1 What are some possible actions for government, insurance companies or community groups to improve the affordability and suitability of insurance products for low-income vulnerable Victorians?

Suitability

Financial Rights believes that there should be a specific, individualised suitability requirement – that is, that there is an assessment of some of an individual's personal circumstances before making the product available to them. Many insurance products are designed to enable consumers (including very unsophisticated consumers) to improve their financial resilience and protect very important personal assets like their homes and vehicles. There however needs to be clear obligations on insurers to ensure that these products are fit for purpose and that consumers are able to access the information they need to make informed decisions within a range of potentially suitable products.

ASIC Report 415 *Review of the Sale of Home Insurance*, for example, made a number of pertinent observations regarding insurer practices that are insufficient and suggestions for improvement (but we note this is not a comprehensive list):

- That the sales process was designed to meet the insurer's needs rather than promote understanding of the product for the consumer (p6);
- That sales staff were sometimes poorly trained in relation to product features and/or trained to avoid giving any explanations or guidance (no advice model);
- That insurer's telephone scripts could set out better ways for insurers to convey to their customers (p40-41, 44,):
    - Insurance features and exclusions;
    - How cap and limits operate in practice (through the use of hypothetical examples);

- Include a plain English explanation of what the sum insured means and how it should be estimated with calculator style questions or at least references to available calculators.

While the ASIC report was focused on the disclosure obligations of insurers, we submit that the above also spells out how a suitability obligation could potentially be implemented, with an obligation on the insurer to explore the objectives and requirements of consumers and match products accordingly.

The Financial Services Inquiry rejected the notion of an individual suitability or appropriateness test stating that

> *An individual appropriateness test, where no personal advice is provided, would introduce significant costs for issuers and distributors due to necessary changes to the sales process. Appropriateness tests are also open to manipulation.*[5]

We believe that there are strong arguments to reconsider this finding. Financial Rights also asserts that there are significant structural problems in insurance leading to consumers ending up with insurance products that are simply not appropriate or suitable to their needs. These include:

Sum Under-Insurance: that is, since most people are realistically unable to assess correctly the value of their home and contents leading to systemic underinsurance.

Feature Under-Insurance: because insurance contracts and PDS's are highly complex and not easily comparable, consumers are not able to properly assess the features and exclusions in their insurance products.

Lack of competition brought about through industry consolidation and complexity of products

Problem products and channels – as discussed extensively in this submission there are a number of types of products such as CCI, funeral insurance etc and channels such as car yard add-ons that are sold inappropriately.

Financial Rights acknowledges too that there will be costs involved in creating a suitability test but there are significant costs currently for insurance customers stuck with unsuitable insurance products and the general community and government when they are forced to step and mop up the mess.

Financial Rights notes that a suitability test already exists in the financial services sector– that is, the responsible lending obligations in consumer credit. We believe that a similar approach must be introduced into the insurance sector.

[5] FSI Inquiry Final Report p203
http://fsi.gov.au/files/2014/12/FSI_Final_Report_Consolidated20141210.pdf

Recommendation

The Victorian government should strongly encourage the Commonwealth Government to implement an individual suitability test for insurance products at point of sale.

Standard Cover

In the absence of a specific suitability requirement, or to complement such a requirement, the government should improve the standard cover provisions of the *Insurance Contracts Act* which currently service no practical purpose.

The *Insurance Contracts Act* under sections 35 and 37 provide for standard cover in certain types of common general insurance but allows insurers to contract out of these provisions so long as they clearly disclose this fact in writing. In practice all insurers contract out of the provisions, rendering them pointless.

The standard cover regime was originally enacted as a response to the Law Reform Commission's 1982 Report on Insurance Contracts.[6] The Law Reform Commission argued that:

> *difficulties caused by lack of information available to insureds are made worse by the wide of terms of insurance contracts offered by different insurers and the unusual terms which sometimes appear in them. In order to alleviate these difficulties, standard cover should be introduced …*[7]

The Law Reform Commission continued to state that:

> *Policies contain numerous terms which affect in unexpected ways the cover offered. In a few cases, the insured's attention is drawn to the relevant limitation at the time when cover is arranged. In the vast majority of cases, however, nothing is said. The insured's ignorance remains undisturbed until he makes a claim. …. The market is at present distorted by the fact that purchaser discrimination is limited to matters like price, little or no account being able to be taken of differences in the nature of the products being sold.*[8]

The original vision for standard cover was one in which:

> *An insurer should be free to market policies which offer less than the standard cover. If it chooses to do so, it should have to draw the insured's attention to that fact and to the nature of the relevant diminution in cover. If it fails to do so, the contractual terms should be overridden to the extent to which they provide cover which is less than the standard.*

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[6] http://www.alrc.gov.au/report-20

[7] p.xxvi http://www.alrc.gov.au/report-20

[8] pp.44-45 http://www.alrc.gov.au/report-20

The problem with the implementation of this vision is that, as alluded to above, Section 35 includes a "get out of jail" clause stating that the standard cover regime:

> *does not have effect where the insurer proves that, before the contract was entered into, the insurer clearly informed the insured in writing (whether by providing the insured with a document containing the provisions, or the relevant provisions, of the proposed contract or otherwise).*

In other words, insurers don't have to "draw the insured's attention" to the fact that they are providing less than standard cover – they just provide it in the PDS and contract. We note the recently released research by the Insurance Council of Australia that found that only between 19% and 26% (depending on the type of general insurance) used the PDS in their pre-purchase decision making and even fewer (3%-7%) used it as their main source of information. Further, while many consumers believed they were aware of the terms of their policy, actual tested comprehension levels were low in comparison to confidence levels.[9] In short, insurer's can offer less than standard cover simply by tell their customers in a document few read and even less understand.

Financial Rights strongly believes that the Government needs to take another look at standard cover and institute a more effective regime that ensures that consumers can better compare insurance products and decrease the possibility that consumers will end up with an unsuitable product.

Recommendations

Make representations to the Commonwealth Government to remove subsection 35(2) of the Insurance Contracts Act – that is, the standard cover "get out of jail" clause.

Introduce a complimentary suitability requirement.

Introduce a default cover regime requiring insurers to offer standard cover products as minimum default cover.

In the alternative, where an insurer sells a consumer a product that provides less than default cover, the onus should be on the insurer to show that the consumer both understood how the policy differed from default cover and that the alternative policy was suitable in the consumer's circumstances.

[9] Consumer Research on General Insurance Product Disclosures Research findings report, February 2017, available at http://www.insurancecouncil.com.au/assets/report/2017_02_Effective%20Disclosure%20Research%20Report.pdf

Widespread lack of cover for flood despite introduction of standard definition

Financial Rights notes that the Government has recently had to intervene in the insurance market to ensure that there is one standard term that applies to all home and contents policies: the definition of flood. Following the floods of 2011 and subsequent lack of coverage for many home owner policyholders, flood cover is now included in home and contents insurance policies, with a common definition, but consumers have the choice to “opt out”.

In Financial Rights experience many consumers are doing so, or simply finding it impossible to find cover at an affordable price. Financial Rights gets regular calls from consumers who are unhappy with the premium being asked in relation to their flood cover. Complaints include:

- Consumers disagree with insurer’s assessment of the risk in the general area
- Consumers have undertaken flood (or storm, or indeed fire) mitigation work that has not been taken into account
- Consumers believe they have been wrongly allocated to an area of general high risk – for example, they are one of the only houses on top of a hill in an otherwise flood prone area
- Consumers simply cannot afford the premium being asked.

Some callers are being refused insurance completely:

> *An employee of a shire council rang to report that in the last two weeks nine residents of his council area had rung to complain they have been refused insurance due to increased flood risk. In 2009 the council had conducted a flood risk study done and only three dwellings were in 1% flood risk lines. None of the nine residents who complained were in this risk bracket which meant they had only a 1 in 10 000 risk of flooding.*

Financial Rights been approached by a least one insurer concerned about the number of customers who are opting out of flood insurance and wanting to know to what extent we can assist people better understand their risk. We have noted from our calls that consumers are extremely price sensitive – they will call up complaining about relatively small premium increases or ask why typing one of their neighbour’s addresses into the insurance price calculator creates a $30 difference – and have a tendency to discount the likelihood of loss events occurring.

We are concerned that events similar to 2011 are likely to occur again, with significant numbers of properties uninsured for flood as a result of customers being unable to afford appropriate cover in the private market, being refused cover, or opting out of cover without appreciating the full extent of their risk. The market solution is not currently working. All indicators currently point to a likely increase in natural disaster events. These events are inevitably going to cost the government significant amounts of money.

The NDIR recommendations offered a solution which invested that money in a strategic way, ensuring flood mitigation and improved planning was a key part of the equation.

Either the recommendations of the NDIR should be fully implemented or the government and insurance industry need to come up with an alternative model of default cover which provides real solutions.

5.2 What, if any, evidence is there of an increased uptake of insurance when the 'fire services levy'was removed?

No comment

5.3 What are the ways to improve the way people pay for their insurance? Such as through fortnightly payments or through Centrepay

A key financial literacy and money management measure is to be able to pay insurance premiums fortnightly. Centrelink is paid fortnightly. Salary and wages are also usually paid fortnightly. To ensure that premiums are paid it is important to be able to line up payments with payday. It is noted that other financial institutions (for example, banks) have been offering fortnightly payments for over two decades.

Financial Rights offers financial counselling as one of our services. Financial counsellors often use a strategy of making sure high priority payments are paid first and lined up with pay cycles. This simple change often means the difference between bills being paid and not being paid. The fact that insurers require monthly payments can often mean that insurance is cancelled simply because the person or family runs out of money by the time the direct debit is due. Once the direct debit fails the insurer only needs to notify of cancellation and then the policy is cancelled. It is very easy for low income families who want insurance and know they need insurance to stop being insured simply because the direct debit does not line up with their pay.

In addition, consumers on low incomes who pay their insurance by instalments are at greater risk of default and cancellation for non-payment. Instalment payments can also be considerably more expensive than paying an annual premium, impacting on those who can least afford it. Insurers should be encouraged to minimise this differential as part of their commitment to financial inclusion.

While Centrepay is a vital tool for managing essential expenses, we see many low income clients who are paying for insurance products of dubious value. We were pleased to see funeral insurance removed from the Centrepay regime. Access should be limited to those products which allow low income consumers manage key risks to their home, essential household property and means of transport.

Under the General Insurance Code subscribers have committed to giving notice in writing to consumers who have missed an instalment payment 14 days before any cancellation. Financial Rights recognises that this commitment goes above and beyond the requirements in the *Insurance Contracts Act* which allow an insurer to cancel an instalment contract for non-payment without notice as long as *before the contract was entered into, the insurer clearly informed the insured in writing of the effect of the provision (Section 62(2)(b)).*

However, Financial Rights still regularly receives complaints from consumers whose instalment contracts were cancelled and they were completely unaware until they made a claim. We recognise that keeping up to date with instalment payments is the responsibility of the insured, but we think a few small tweaks to Section 4.10 of the General Insurance Code could help consumers avoid such a crisis.

Instead of requiring subscribers to only "give notice in writing" 14 days before cancellation, the General Insurance Code should commit insurers to giving notice in writing through at least 2 different communication channels (SMS, email or post) 14 days before cancellation. The second part of 4.10 should also be amended to require subscribers to always give the second set of notices (through 2 different channels) within 14 days after the policy has been cancelled. We believe a notification that a consumer's policy has been cancelled will be the most effective means of motivating them to take action before an insurable event takes place.

Recommendations

Premiums should be available for payment through fortnightly direct debit. Centrepay should only be available for critical insurance such as car and home

Section 4.10 of the General Insurance Code should be amended to require subscribers to:

a. **Give notice in writing 14 days before cancellation through 2 different channels of communication (SMS, email or post); and**

b. **Give notice in writing within 14 days after cancellation**

5.4 What are the opportunities to explore peer-to-peer or group insurance as a way of improving insurance coverage among low-income and vulnerable Victorians?

No comment.

5.5 What, if any, potential is there to link risk management activities (either individual, community/group based, or government funded) to insurance premiums?

Encourage and Support Mitigation Measures

Financial Rights notes the work of the Northern Australia Insurance Premium Taskforce in producing its report in 2015. While there are a number of very specific circumstances faced by consumers seeking to insure their property in northern Australia, we believe that a number of key findings and lessons from this report can and should be applied to the insurance sector more broadly and the Victorian insurance sector specifically.

The key recommendation of the Report to reduce premiums in a sustainable, long term way is mitigation action – that is taking action now to protect for potential vulnerabilities in the future. The Report argues for policies that:

- encourage consumers to take responsibility for their own mitigation strategies,
- ensures government steps in with direct subsidies for lower income, more vulnerable consumers to undertake the necessary work and
- ensures that the insurance industry steps up to develop appropriate pricing systems that provide greater recognition of mitigation action, and engage more effectively with

property owners via greater disclosure of risks and greater responsiveness to policyholder concerns.

With respect to this latter point Financial Rights can attest to the frustrations felt by consumers.

Provide Better Information for Consumers

Providing consumers with more information about risk and mitigation strategies is an important first step to reducing insurance costs by reducing risk. Through our extensive experience talking to insured consumers on the Insurance Law Service we believe are many areas where consumers might be able to self-mitigate if they had better information. Below are two examples:

1. Building codes are designed to reduce injury to people, but not necessarily mitigate against any structural damage in a cyclone.[10] This information should be clearly and simply communicated to consumers. Homeowners who have gone to great lengths to make sure their homes are up to the latest building codes may be under the impression that their insurance will be reduced accordingly, when in fact they have not reduced their risk of cyclone damage at all.

2. Minor steps can be taken by consumers to reduce the vulnerability of cyclone damage before a storm hits.[11] Things like removing loose items around a property or undertaking small-scale home improvements. This information should be distributed to homeowners, and tenants on a regular basis. Many residents in cyclone areas might be new to the area and not aware of the small steps they can take to greatly reduce their cyclone damage risk.

Homeowners will only be incentivised to undertake mitigation projects on their own properties if there is a corresponding reduction in premiums. There does however seem to be some impediments to insurance premiums being responsive to mitigation action.

The first is that insurers might want verification of the efficacy of a mitigation strategy before reducing premiums. This could be resolved by having post-mitigation premiums be subject to some independent review. Currently there is no independent or regulatory mechanism for homeowners to contest post-mitigation premiums.

Financial Rights supports an independent inspection process to determine the vulnerability of a property to natural disasters or threats, give information to consumers about what mitigation action they might take, and provide verification of all mitigation action that a property owner has undertaken. If an insurer refuses to recognise mitigation strategies undertaken by a homeowner by lowering premium, or does not lower premiums enough there must be a way for that homeowner to lodge an independent dispute.

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[10] p. 12, Northern Australia Insurance Premiums Taskforce, Interim report, 2015

[11] p. 14, Northern Australia Insurance Premiums Taskforce, Interim report, 2015

We believe consumers will be more likely to take up adequate insurance and undertake mitigation strategies if they can identify a correlating reduction in premium. This however can only be done by promoting greater transparency and contestability. Consumers can and do recognise some personal and property risk, but the current premium pricing system does not provide any reliable benefits to homeowners to take any personal mitigation strategies.

Financial Rights notes that the Northern Australia Insurance Premium Taskforce states that

> *"Potentially, there is also a role for legislating enhanced requirements around the disclosure of risks if industry efforts do not yield meaningful results for consumer."*

Financial Rights strongly believes that Government has a role to play in ensuring that consumers are better informed of their risks. This means ensuring that insurers provide better and more accessible information around natural risks and building resilience measures to help motivate homeowners to take action to protect themselves and their property.

We also believe that government needs to step in to ensure that insurers make insurance premiums more responsive to mitigation. This would require rules to ensure greater premium transparency by making the link crystal clear between mitigation and lower insurance premiums (or conversely no mitigation and higher insurance premiums). Insurers should also be more proactive in working with their customers (or future customers) to raise mitigation awareness and help educate them of its benefits.

Provide Direct Subsidies for Mitigation

The Northern Australia Insurance Premium Taskforce Final Report recognised that there will be many property owners who may not be able to realise premium reductions from mitigation because they do not have the financial capacity to undertake the necessary work. One option put forward was to have the government to directly subsidise the cost of mitigation for low income households. Financial Rights supports a direct subsidy to consumers if eligibility for that subsidy is explicitly tied to those mitigation activities.

Insurance costs are a clear signal to consumers about the level of risk their home is subject to. If the Government interrupts this risk signal, there will be no incentive for consumers to mitigate, or move elsewhere and the same affordability concerns will still exist when subsidies are phased out.

Government should concentrate intervention on supporting mitigation costs, addressing information asymmetries or significant information gaps and supporting better regulation of the insurance market to promote significantly increased transparency and contestability. Governments also need to subsidise public works through grants to local councils for, say flood protection infrastructure. Ideally this would take place in the context of a broader strategy to promote better mitigation infrastructure generally, including improved planning regulation, and insurance affordability as recommended by the National Disaster Insurance Review (see below).

Introduce an Independent Assessment Process

Financial Rights supports the development of an independent mitigation assessment process. The biggest advantage of establishing an independent assessment process is that it will give insurers the verification they need to reduce premiums, which will in turn incentivise mitigation action by homeowners. Again, homeowners will only be incentivised to undertake mitigation projects on their own properties if there is some certainty around a corresponding reduction in insurance premiums.

Consumers respond very positively to independent assessment and review mechanisms. Consumers will not always trust an insurer to give them an honest answer about their risk or the corresponding cost of indemnification. An independent process is often seen as much more reliable.

The disadvantage of a scheme like this is that it would cost money. Would it be industry funded, Government funded, or funded by homeowners that want to use it? If the answer is the latter, this will not help with affordability issues, and it is not much different from a homeowner paying for a builder to come assess their property. Financial Rights recommends that an independent assessment process be at least partially funded by industry or the Government.

Recommendations

The Victorian government, working closely with the insurance industry needs to:

a. **encourage and support mitigation measures;**

b. **provide better information to consumers by listing specific information on renewal notices that covers risk and possible mitigation measures;**

c. **provide direct subsidies for mitigation; and**

d. **introduce an independent assessment process for household risk and mitigation.**

Section 6. Trusting the insurer and the product: industry practice

6.1 What are some possible improvements that could be made with regard to insurance industry practice?

There are vast improvements that could be made to insurance industry practice. Financial Rights has written a number of submissions to various enquiries outlining recommended changes. Our submissions can be found at www.financialrights.org.au/submission/

6.2 To what extent is there a lack of trust in insurance companies among low-income Victorians? What are the causes of any such lack of trust?

There is a lack of trust in insurers from low income Australians (including Victorians). The causes include:

1. A perception about the inability to get insurance due to a claims history, criminal convictions or just plain being low income

2. Getting claims paid is difficult for people from CALD and Aboriginal communities and people with disabilities. The concern is that even if insurance is held getting the claim paid is difficult so why bother with the insurance?
3. That because they live in a risky area the insurance will be unaffordable
4. Poor claims experiences in the past due to the asymmetry between a consumers understanding of cover and what they are actually covered for. Financial Rights speaks to many disaffected consumers who upon hearing their insurer has rejected their claim (on legitimate exclusion, such as wear and tear) announce they “do not see the point” of paying for insurance and intend to no longer hold it.

6.3 How does a lack of trust affect the uptake of adequate insurance?

The lack of trust has a significant impact on the uptake of insurance. Many consumers cannot see the point of insurance they cannot afford and is difficult to claim on.

6.4 What possible actions can be undertaken to address a lack of trust among low-income Victorians?

Premium transparency and contestability

Financial Rights strongly believes that the current lack of insurance premium transparency and contestability in Australia is leading to the lack of trust among consumers for insurance companies. Current competition is in our view is also adversely affected by the lack of transparency in premium pricing. There is currently no adequate mechanism to review whether premiums are being calculated fairly.

For example, in March 2017 research by the Emergency Services Levy Insurance Monitor[12], which surveyed premiums across 11 suburbs, found an average variation of $1100 between insurers for "basic home and contents polices". The monitor, Professor Allan Fels, said suburbs have different characteristics "and you would expect to see price differences across locations".

> *"But it's very concerning there are such big differences in prices quoted for the same property," he said. "It suggests that competition is not fully effective in this industry."*[13]

Through the ILS, Financial Rights regularly receives complaints from consumers about the level of their premium. Consumers sometimes believe their premium has been incorrectly calculated given their claims history, or has been calculated based on incorrect information. From our experience, consumers who dispute their premium or excess pricing with the insurer are generally left feeling unsatisfied. We are told:

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12 http://www.eslinsurancemonitor.nsw.gov.au/

13 Calls for transparency over variations in home insurance premiums, Sydney Morning Herald, Sean Nicholls, 21 March 2017 http://www.smh.com.au/business/consumer-affairs/call-for-transparency-over-variations-in-home-insurance-premiums-20170320-gv1v3m.html

a) the sales team cannot explain why the premium is priced as it is;

b) they are provided generic answers; or

c) they do not feel the insurer has taken any steps to look at their particular situation.

For example, in flood coverage for home insurance products, an insurer may historically have priced premiums on a suburb level rather than an individual property level, creating a benefit to shopping around in some regions. Some consumers will benefit from using insurers which take into account specific hydrological data about their property (and price lower accordingly). Alternatively, where a specific property is assessed as high risk for its individual topography, a suburb-based premium could be more competitive. In some regions this does not occur because there are fewer insurers, or no insurers pricing on postcode or a higher peril.

Case study: Failure of contestability in North Queensland

Sally lives in North Cairns. Her property was built in the 1940's and is located in the White Zone outside the Storm Tide Zone as advised by her Local Council. Since buying the property and after Cyclone Yasi, Sally made some structural changes to the property and was advised by her builder that it was now "cyclone rated". She was insured for Storm, but not Storm Surge or Flood, and her premiums were $5,000 per annum. She was happy with her policy in light of the property modifications. In early 2014 at renewal time, the insurer wrote to her and declined to renew her insurance policy on the basis her property was an "unacceptable risk".

Sally rang them and told them about the building works and that she was zoned in the White Zone. The insurer did not change its position, and continued to refuse to renew the policy.

Sally rang around other insurers, each time telling them at the point of sale about the works undertaken and that she was in the White Zone. No insurer would offer a policy of insurance to her.

Eventually, she contacted a broker, who arranged insurance for her at a higher price, so she would not be left completely uninsured.

Financial Rights helped her dispute the insurer's refusal to renew, by requesting written reasons under Section 75 of the *Insurance Contracts Act*. Shortly after ILS raised the written dispute, the insurer changed its mind and offered Sally a policy at the same price as it was the year before.

Sally was disheartened as Financial Rights had not done anything more than what she had previously done apart from quoting a section of the Act and using legal letterhead. She was still completely in the dark about the reasons for their original decision to decline to cover her, or indeed why this was later reversed. She chose to remain with her new insurer out of dissatisfaction.

Through our extensive advice experience we have found that consumers have difficulty contesting premium pricing by insurers (despite section 75 of the Insurance Contracts Act). Even when consumers do all the right things, they face impediments due to lack of competition and a lack of premium pricing transparency. It is commonly accepted that insurers' premium pricing information is "commercially sensitive" and if pricing is known it would somehow detrimentally affect their ability to compete. This guarded approach leads to consumer suspicion, misunderstanding and sensitivity to change. It undermines the insurance industry's credibility in being consumer focused and drives the perception of gouging.

The following case studies demonstrate the lack of information and explanations that insurance companies provide to customers about changes to premiums. Many of these case studies come from our ILS email inquiry form. In those examples identifying information has been removed for this submission, but the content comes directly from each consumer's email.

Case study - Consumer awareness as to premium (Financial Rights email inquiry)

We have just received our renewal notice a while ago while discussing contents insurance we had been told that we were over insuring our contents which would be costing us more to insure so we rang INSURER and arranged to bring the figure down from $80,000 to $45,000, while on the phone we also changed our address details from QLD to NSW. This is when problems started we were told we live in a high risk area so it will cost us more. (we spoke to neighbour they claim rubbish) then our renewal came we had reduced the amount of cover we needed yet the renewal was going to cost us $85.00 more than it did when we had double the amount my wife was told that it was because the government in different state charge more than others it is not the insurers fault but the government I realise that Australia is not one country but several all run by different people and we need passport it travel from one state to another. so is it true is there a cost hike caused be governments?

Case study - (Financial Rights email inquiry)

My insurance premium for my investment property and my house insurance have gone up 600% in the last 4 years, this company said there is nothing they can do for us and you will find the same quotes elsewhere so I wouldn't even try. My investment property is the problem, as we have fixed the first one. The problem is the [address in SUNSHINE COAST QLD]. the last year's premiums were $347 a month. I could no longer afford this and tried a few insurance companies to see if they could help. I recently had to cancel my policy with INSURER1 and joined INSURER2, their charge was $90.00 a month. I feel like I've been ripped off and would like to make a claim, if I look back at the other house premiums and they were as bad so there might be a case there as well. can you please help ??

Case study: Lack of transparency in premium pricing (Financial Rights email inquiry)

My policy has increased by 20 percent on last year when I rang to ask why they said it was because they increase your level of insurance each year with inflation .when I stated that our cover only went up by 4.9 percent he had no other reason that it increased so I asked how can there be such a difference he had no answer I ask for some one to call me back and they have not I just can't get an answer how they can justify this.

Case study: (Financial Rights email inquiry)

Between one policy renewal schedule and the next, my excess increased from $100 to $500. My concerns are these:

1. The extent of the increase is 500%. This seems excessive and unreasonable, to say the least.

2. The only notification of the increase was a one-liner in the wording of the schedule itself, and a note at the foot of the reverse of the schedule. There was no prior notification warning of the increase - no letter warning that this might be coming. In my view, INSURER has acted in bad faith in not pre-announcing such a significant increase and therefore failing to allow its customers to consider their continued association with INSURER.

Renewal schedules come out as a matter of course; but a 500% increase in excess is something so out of the ordinary that it should have been flagged separately, and well in advance.

Had I not heard an INSURER Customer Service officer mention in passing a few days ago that the excess had increased by 500%, I would have been in the dark.

Case study: Unexplained decrease in premiums

Matthew has an apartment in Queensland. He was paying contents insurance of $740 in 2012, and then $841 in 2013 but his renewal this year was for $231; a reduction of $500 and over 50%. He rang them and asked what the reason for the reduction was and the insurer has told him they can't tell him. Now he wonders whether they calculated it correctly before and whether he has been overcharged. He worries he may not be covered for events and is now suspicious.

Case study: Lack of clarity around multiple policy discounts

I have to pay my house and contents today. They keep changing my insurance dates and amount I have to pay. They sent me a 12 month renewal in March instead of for May. They also do not give me my 15% discount for multiple policies. They do not list the amount of discount when they now say they have applied it, but the amount is more than when they said I did not have the discount. They keep charging me extra for something not listed on my policy. They asked me security questions and DOB and proceed with my inquiry and then after 30 minutes tell me they have to charge me extra because they had my DOB wrong. I have been told to talk to IDR but they will not talk to me. I want these points clarified before I attempt to ring again as to what $ do I need to pay today and what am I covered for.

Case study: Unexplained discounts

John has insured his cars and homes with INSURER for over 15 years. John rang up to switch his building insurance to landlord's insurance and was told that he should ring back when the rent is known as that may affect the premium. John did so and spoke to another representative; they noted the rental and the new policy price changed. In the course of the call, the representative said "I'll just make sure all your discounts have been applied, for all the policies" after a few minutes they came back and further reduced the policy price plus reduced the price on his other policies. John was irritated, why hadn't the first person done that and he has had these policies for over 15 years. Had they been doing it before?

Case study: Claims history of strangers affecting premiums

Jane lives in an apartment. She was renting in Unit 1 and then she moved to Unit 3. She rang her comprehensive motor insurer to change her address. Her insurance increased by $7 per month. She queried about the increase and was advised it was the claims history of the previous occupant. Jane fails to understand how the claims history of a stranger has any bearing on her premiums; given there has been no change to the location of her car or her own driving history.

In our view, the lack of transparency surrounding how premiums are priced is detrimental to the insurance industry, and it does not foster accountability. The insurance industry should not be able to shield relevant information on the grounds that there are using "commercially sensitive" rating factors and weightings. Consumers should have access to such information if they have a legitimate dispute about the reasons behind a premium or excess price or changes to their insurance policy conditions. There is currently no dispute resolution mechanism for a consumer notwithstanding the consumer's insurance policy may:

- Be offered with a premium the consumer believes to be unreasonable due to inappropriate assessment of risk; or
- Have complex terms and conditions the consumer cannot understand and, as a consequence, the consumer finds they have an inappropriate policy.

In its 2014 publication entitled "*Enhancing the consumer experience of home insurance: Shining a light into the black box*" [14] the Fire Services Levy Monitor in Victoria (**FSLM**) reasoned that by improving the efficiency of insurance markets, through removing information asymmetry and making competition more effective, policyholders will be better informed and premiums will

14 Fire Services Levy Monitor of Victoria, Enhancing the consumer experience of home insurance - Shining a light into the black box, July 2014. available at: http://www.firelevymonitor.vic.gov.au/home/news+and+information/publications/publication+shining+a+light

fall, thereby making insurance more accessible. In order to achieve this goal and to improve consumer awareness the FSLM specifically recommended that FOS:

Provide easier access to information and dispute resolution – by removing hurdles to information provision by insurers and dispute resolution by the Financial Ombudsman Service, consumers are less likely to be disadvantaged by opaque risk rating practices of insurers.

The FSLM report argued there is a need for greater contestability of premium pricing and cost pricing. Currently, the main way premiums or insurers' decisions in relation to offering insurance is "reviewed" is by consumers shopping around to see what other insurers are offering, a mechanism next to useless in some pockets of Australian, such as northern Australia. In insurance markets with limited suppliers such as Northern Australia, competition is not an adequate mechanism for consumers to 'review' insurance premiums. If all insurers are using incorrect data or not taking into account localised factors, then competition fails.

It is Financial Rights' view that insurers should not be able to hide behind vague reasons and unsubstantiated assertions about how premiums are priced. They should have to substantiate premium pricing across all forms of insurance. In the home and contents space it is essential.

The failure of industry to have any mechanism of review of the fairness and consistency of premium calculations is of significant detriment to consumers. This failure also provides no guarantee that any household mitigation strategies or idiosyncratic household conditions are taken into account when determining premiums. Consequently, premium prices cannot be said to be "accurate" signalling of risk as there is no contestability or transparency in their calculation.

A consumer may reject the premium as an inaccurate reflection of their risk, and where there are few insurers in the market place (or they are all relying on the same incorrect information) a consumer may decide to self-insure or be forced to be uninsured not only for the risk of the hazard but for all claims (where they cannot get any level of cover).

In the absence of this information, consumers are in the dark and may be making poor decisions. If consumers could trust the transparency and contestability of premium pricing decisions by insurers, consumers may be more likely to believe the risk assessments on their properties.

Further, issues of premiums also arise in other general insurance products such as pet insurance. Financial Rights receives a lot of complaints from consumers who experience increasing premiums in pet insurance, as their pet ages and when they need insurance the most. The industry needs to ensure that they are treating consumers fairly, and are not pricing some of the most vulnerable consumers out of the market just as they may need the cover the most.

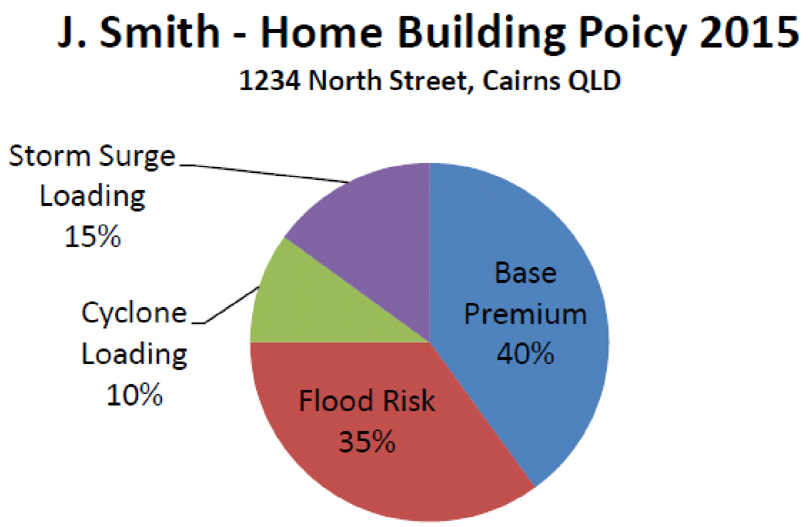
Case study: Increasing pet insurance premiums

Sandra is a disability support pension and she insured her dog Hunter 10 years ago when Hunter was 8 weeks old. Originally the premiums were $35 per month. Sandra continued to insure her pet every year as the policy guaranteed continued benefits for chronic conditions. Hunter had developed a skin condition and needed ointment prescribed by the vet. After 8 years she cost of the premium was now $106 per month or $1270 per annum. This increase was a 158% increase in cost. In addition to the premiums increasing steadily, the excess for each claim increased from $150 to $200 and when Hunter turns 9 she will also have to co-contribute 35% of each vet visit. Sandra is shocked, her annual premium now represents 6% of her income.

Financial Rights notes that ASIC have recently announced a “no-claims discounts health check” examining whether insurers have implemented measures that improved consumers understanding of how they work and ensuring “insurers are complying with their obligations to provide consumers with accurate information”.[15] Financial Rights supports this examination into what is yet another layer of complexity confusing consumers and a lack of transparency from insurers.

Disclosure of Component Pricing

Financial Rights strongly submits that insurers should be required to provide information as to the components in their premium pricing. Knowing what makes up the price of a premium will better inform consumers about risk and what effect mitigation strategies may have on reducing insurance premiums or what behaviours or conditions might increase premiums. Component pricing information should apply uniformly across all insurers but will be particularly helpful in addressing a lot of the issues faced by those in parts of Australia that face severe weather risks. It would provide an easy to read, easy to understand signal to consumers of the risk factors taken into account when premiums are set. For example:



The above would communicate to a consumer the risk, and the potential benefits of changing behaviour to mitigate that risk. To assist homeowners even further, information could be

15 Greg Medcraft, ASIC, Regulatory Update to the general insurance industry, 17 February 2017, http://www.insurancecouncil.com.au/assets/media_release/2017/annual%20forum%20day/greg-medcraft-speech-ica-annual-forum-17-february-2017.pdf

provided directly below the chart detailing practical tips on how a homeowner could mitigate cyclone risk and lower their premiums.

Financial Rights recognises that such a proposal may face objections from some in the insurance industry on the basis that pricing information is "commercially sensitive". Even if "commercial sensitivity" is accepted to be an issue, Financial Rights does not believe that it is insurmountable and asserts that there are simple and creative ways to ensure such information is sufficiently obscured without denying homeowners the right to basic information about their insurance. For example, the component pricing could use percentage figures that are heavily rounded up or even display information using graphics and images only. The number of solutions available is in our opinion limited only by the will of vested interests rather than anything unique about insurance as a product. It is Financial Rights' view that "commercial sensitivity" must no longer be used as an excuse to continue to keep homeowners in the dark about an essential and important product and should not be wielded as some sort of trump card to prevent any and all changes aimed at improving information asymmetry in the insurance market.

Financial Rights also supports greater access to information on natural hazard mapping, modelling, exposure and risk. Insurance companies are not currently required to make this information available to consumers even when it applies directly to their premium price.

Previous year's annual premium

Financial Rights believes that all insurers should commit to providing the previous year's premium on the annual renewal notice. Information can include

- the price of the new policy if the consumer renews;
- any difference between the new price and the old price; and
- the reasons for any change.

Such a change will alter consumer behaviour by prompting consumers to think about their insurance, ask their insurer about the price and features, and make informed decisions.

This move would be an important step in improving price transparency and assist consumers in making more informed decisions. The information at renewal is an important opportunity for consumers to consider their financial situation and make appropriate decisions. Information about (a) the risks of switching and (b) any premium hardship options available under their existing policy may be of benefit to consumers. The industry should consider what best practice may apply at the point of renewal to prevent lapses, unnecessary churning, and other consumer harms.

Case study: ILS Email from January 2017

INSURER reassessed our postcode area as being an increased flood risk in October and accordingly increased the premium from $160 to $462 a month. They sent out a policy saying it was time to renew and that I should read carefully the Supplementary PDS because some changes had been made. I read it thoroughly and did not observe the premium increase. I only found out two months later when I received my VISA card statement. Recently I've had increases in Health Care charges and Power charges. On both occasions the increases were minor, however on both occasions I was informed in a very clear letter highlighting the increases. I'd expect that INSURER increasing my premium by 288%, would have provided the same service to me. I believe the policy renewal was formatted in a way as to avert my attention from the premium increase. I'm no longer insured with INSURER. I am now insured with OTHER INSURER with the same coverage as INSURER for $170.

We note that IAG have announced that they will be providing year on year annual payment comparisons for NSW customers to assist in the Emergency Services Levy Reforms in that state:

> *To help our customers clearly identify the impact of ESL reforms on premiums, IAG has implemented year-on-year premium comparisons on existing policy documents. This has been deployed across all brands for all NSW commercial and residential renewal policies commencing from late March 2017.*[16]

We also note that Medibank Private provide this service already in a separate statement sent to their members.

[16] IAG submission to the ESL insurance monitor public inquiry, p 17 https://www.iag.com.au/sites/default/files/Documents/Government%20submissions/IAG-Submission-to-ESL-Public-Inquiry-100517.pdf

medibank
For Better Health

March 2017

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[redacted]
CREMORNE NSW 2090

Medibank Private Limited
ABN 47 080 890 259

GPO Box 9999
in your capital city
Telephone 132 331

medibank.com.au

Membership number: [redacted]

Your health cover premium is changing

Dear Ms [redacted]

We're writing to let you know that your premiums will be increasing as of 1 April 2017, following the government's approval of our premium review.

Your premium

Top Hospital $500 excess and Basic Extras 70	
What you pay now	$339.05 monthly
What you'll pay extra	$20.00 monthly
What you'll pay from 1 April 2017	**$359.05 monthly**

So why the change?

Put simply, we're living longer, we enjoy some of the best healthcare in the world, and we're using it more than ever. These are some of the things that affect what we all pay for health cover. That's why reviewing our premiums is important, so we can continue to support you, and all our members, to be healthier.

Here's what we're doing for you

We're providing 100% back on select services that can help millions of members live better lives. We've also introduced round-the-clock support for you online, and extended our call centre hours to Saturdays from 9am to 4pm. So, if you have any questions about your health cover or claims, our helpful team will be there for you any time.

If you'd like to know more about the cost of health cover, plus some helpful tips to get more from yours, visit **medibank.com.au/premiumchanges**

Kind regards,

David Koczkar
Chief Customer Officer

Your cover includes:

24/7 Health Advice line

Need health support or health advice? Our members can speak with a Medibank nurse 24/7 on 1800 644 325.

Cover for Accidents

If you have an Accident you'll get all of the coverage of our Top Hospital Cover – no matter what level of Cover you have*.

100% back on dental check-up

On top of your dental limit, get 100% back on at least one dental check-up yearly at any Members' Choice dentist[†].

Medibank Mobile App

Manage your health cover from your mobile anywhere, anytime.

For full details on what you're covered for, visit **medibank.com.au/members**

Recommendations

In order to provide sufficient information to consumers, insurers must provide:

- pricing details of the various components of an insurance premium including:
    - A single base premium figure (reflecting the key components mentioned by the Monitor net reinsurance cost, expected claims costs, administrative and overhead expenses and profit margin/cost of capital)
    - Adjustment/discount for claims history
    - Risk weighting (including percentages for flood, bushfire, storm/cyclone, theft malicious damage)
    - Government taxes/levies individually identified
- annual comparisons.
    - Last year's premium
    - This year's premium and
    - The reason for the change e.g. reassessed flood risk, customer mitigation, increased expected claims costs due to climate change etc.

This should be provided in a consistent, easy to understand manner.

6.5 In what ways could an industry code of practice for emergencies assist to improve trust?

6.6 Who might be appropriate independent intermediaries to assist people to understand their insurance needs and the options available, and to support purchase decisions?

6.7 What opportunities exist for collaboration between government, the insurance industry and community sector organisations in order to improve industry practice and increase levels of trust?

No comments

Section 7. Is market failure evident?

7.1 What, if any, further action is required to ensure those who are unable to buy insurance due to cost are afforded the opportunity to do so?

7.2 What is the nature and extent of market failure with respect to low-income Victorians and especially those in high risk locations?

7.3 What impact may premium concessions offered by government for low-income and vulnerable Victorians have in enabling them to obtain appropriate levels of insurance coverage?

The issue of providing direct subsidies to low-income home owners was discussed in the Northern Australia Insurance Premiums Taskforce final report[17]:

If a subsidy was paid directly to insurance companies, this would reduce some of the administrative expenses, but there is a risk that it would not be passed on in full to consumers. If the subsidy was paid direct to consumers, there is still the risk that insurers would increase premiums to absorb the subsidy. This may be more likely if there is low competition in the market. A direct subsidy would have no impact on competition in the insurance market.

The Taskforce concluded that any concerns that some low income households in northern Australia are experiencing financial hardship is best addressed in the context of the broader social security safety net. Financial Rights agrees that a direct subsidy is not a sustainable approach to solving problems relating to affordability or underinsurance.

7.4 To what extent would a government-backed insurance scheme for this segment of Victorian society be appropriate?

7.5 What are the risks associated with these and other forms of government intervention?

No comments

[17] Available at: http://www.treasury.gov.au/ConsultationsandReviews/Reviews/2015/NAIP-Taskforce/Final-Report

7.6 What alternative ways exist for governments to be directly (financially) involved in the private sector provision of insurance for low-income people that avoid the problems experienced in other countries?

We refer to our response above under Discussion Question 5.5. Financial Rights would support a direct financial involvement from government to help Victorians undertake mitigation actions, which would in turn reduce insurance costs. However, for this to work insurance premiums must be more responsive to mitigation undertaken to the property since construction in order to motivate households to undertake such mitigation activity. We support the reasoning and recommendations made in regards to mitigation in the Northern Australia Insurance Premium Taskforce final report.

7.7 What are suitable media, or places and times that are conducive to encouraging low-income Victorians to purchase insurance?

- Insurance renewal notices (for those consumers with some insurance, but who are underinsured in the case of a total loss)
- Motor Vehicle Registration renewal
- Council rates notices (could possibly tie in with local risk information)
- Notices from real estate agents at lease renewal in relation to contents insurance

For many low income consumers the decision not to buy contents insurance, or indeed many forms other forms of insurance may be completely reasonable, particularly if they have few assets of value. In contrast third party property insurance is essential for drivers and many consumers misunderstand what their compulsory personal injury cover is limited to. Registration renewal is a good opportunity to address any misconceptions and discuss the importance of at least third party property cover – you never know what you might run into.

7.8 What are some actions the Government, the insurance industry or insurers individually or the community sector can take to ensure this segment of Victorians have the opportunity to buy appropriate insurance cover?

No comments

Concluding Remarks

Thank you again for the opportunity to comment on the discussion paper addressing non-insurance and underinsurance for emergencies in Victoria. If you have any questions or concerns regarding this submission please do not hesitate to contact the Financial Rights Legal Centre on (02) 9212 4216.

Kind Regards,

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