



1 February 2021

John Price
Lead Ombudsman – General Insurance
Australian Financial Complaints Authority
by email: jprice@afca.org.au
cc. hthiele@afca.org.au

Dear John Price

Cancellation of insurance policies for non-payment of premiums

Thank you for the opportunity to comment on AFCA's approach to insurance cancellation due to non-payment of premiums. The Financial Rights Legal Centre (**Financial Rights**) is broadly supportive of the proposed approach document and note it is a big improvement from the previous FOS approach document on this subject. We make a few comments below about additional information that could be included.

Hybrid policies

Financial Rights ran a matter through FOS in 2018 to determination (**495829**) where this was an issue. We support having a section in the approach document about how AFCA will consider cancellations of hybrid policies and we support the approach that notices must comply with section 210(5) and section 59.

Payment of back premiums

Financial Rights submits that the approach document should include options as to how AFCA will deal with payment of back premiums. Will AFCA consider it to be fair for an insurer to require all back payments be made in one lump sum, or can back payments be made over time? Can back payments of premiums be deducted from claims payouts?

Method of notification

The approach document should include what AFCA will require from the insurer about how notifications are given. For example, will AFCA require evidence from the insurer whether a customer gave consent for notices to be sent by email?

Best practice when notifying customers

Financial Rights suggests that in addition to complying with the law, AFCA could set out what it considers to be best practice when an insurer is notifying a customer before cancelling a policy. For example, we would expect an insurer to make a genuine effort in good faith to notify their customer before cancelling a policy and consider a combination of different channels - SMS notifications, phone call, email and post – for cancellation notifications. This is especially important where customers have multiple policies and may have trouble identifying that one of multiple direct debits has stopped. For this reason, notices should also include policy numbers in addition to product names.

Financial hardship

Financial Rights submits the approach document should include how AFCA will treat cancellations due to non-payment of premiums when the insurer has been put on notice that the consumer is in financial hardship. It would be helpful if the approach document referenced the relevant hardship provisions of the Life Insurance Code of Practice or General Insurance Code of Practice and when they might be relevant to AFCA's approach.

For example Section 6.5 of LICOP states that “your Life Insurance Policy would not be cancelled” if you have stopped your payments for a short period in accordance with the LICOP hardship procedures.

Verbal extensions

It would be helpful if the document included AFCA's approach to the circumstance where there have been intervening conversations with the insurer where the customer has been given additional time to make a premium payment. This would be particularly helpful when extensions have not been put in writing but the customer believes an arrangement has been put in place.

Partial payments

The approach document should explain that if a partial payment is made and cancellation is avoided, another cancellation notice should be issued after the next missed payment. A new cancellation notice should specifically recognise that one payment was made, but another one has fallen overdue so there's no confusion by the consumer about whether their partial payment was taken into account.

Comments regarding Appendix examples

Example 2

At the bottom of Example 2 there is a note at the bottom which explains what happens if a customer only makes part-payment. This is a very important piece of information for the customer and should be incorporated into the actual letter. If they a note is needed to explain how partial payment might affect the cancellation then it is too confusing for consumers to work out the minimum payment needed to avoid cancellation.

Example 4

Financial Rights notes that this example covers the common occurrence where one direct debit fails and another one has been tried and also failed. We think AFCA could make it a little clearer that a notice like that must be sent after the most recent failed direct debit. It would be confusing for a consumer if the letter warned of a second impending direct debit attempt AND gave notice about cancellation should the second attempt also fail. Cancellation notices should only be sent after the second failed attempt. We certainly support insurers sending a notice to a customer that a second attempt will be made on a specific date, but we do not think that should be combined with a cancellation notice.

Concluding Remarks

Thank you again for the opportunity to comment. If you have any questions or concerns regarding this submission please do not hesitate to contact Financial Rights on (02) 9212 4216.

Kind Regards,



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About Financial Rights

Financial Rights is a community legal centre that specialises in helping consumers 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, and the Mob Strong Debt Help services which assist Aboriginal and Torres Strait Islander Peoples with credit, debt and insurance matters.