

A fairer approach to general insurance

Background brief December 2024



Key points

- > Increase transparency in general insurance pricing and risk mitigation
- > Increase oversight and contestability of insurance premium pricing
- > Address insurance affordability
- > Remove the confusion in general insurance contributing to underinsurance
- > Ensure general insurers improve claims and complaints handling practices

Summary of our concerns

General insurance is an essential financial product needed to manage our risk in a world of increasing natural hazards. However, as recent inquiries into the sector have brought to light, increasing numbers of Australians find themselves unable to access, understand or afford its benefits. Further, those who do have insurance are often disappointed when they need it the most, either because the policy does not respond the way they hoped, or because the claims process is unsatisfactory, often compounding an already traumatic experience.

Rectifying problems with general insurance is critical to ensure its sustainability and utility as extreme weather events continue to rise.

We urge the incoming Australian Government and 48th Parliament to engage with the following Agenda to address the harms faced by Australians.

Goal 1 – Increase transparency in general insurance pricing and risk mitigation

Insurers are not providing consumers with enough information when it comes to insurance pricing, making it impossible for policyholders to determine if they are being offered a fair price or a price that accurately reflects their individual or community's risk.

The insurance industry must be more transparent about what risks they are pricing, why they set premiums the way they do, and what policyholders can do to influence the price and reduce premiums or at least reduce the rate at which they are rising. During a cost-of-living crisis Australians need a better standard in communication from insurers about pricing and household risk.

Transparent insurance pricing will help consumers understand the risks they face and what mitigation measures they need to undertake to make sure their properties are resilient in the face of growing extreme weather risk. Consumers also need a clearer understanding of the insurance coverage required for a rebuild of their home - both like-for-like or a more resilient rebuild.

Key asks

- > Working with government, insurers should advise on mitigation measures and provide free assessments for people who have undertaken mitigation on their homes.
- > Require insurers to consider relevant property-level mitigation measures in any new or renewing insurance policy, offer discounts and demonstrate how measures have been reasonably reflected in the proposed premium.

Goal 2: Increase oversight and contestability of insurance premium pricing

The lack of transparency in relation to premium pricing is exacerbated by a lack of contestability and oversight when it comes to how general insurers price risks. Insurers need to be held more accountable when it comes to pricing decisions to ensure consumers are being treated fairly.

Australians across the country are facing huge insurance price increases which often seem unfair on their face and are inadequately explained by their insurers. Given the limited jurisdiction in place for the Australian Financial Complaints Authority (AFCA) to hear complaints about pricing, consumers have few if any options to escalate their concerns. Shopping around is complicated by the very individual nature of premium pricing, impacted by property level characteristics, personal characteristics and claims history. Recent action taken by ASIC in relation to failures to deliver on pricing promises add further weight to the case for improved oversight.

Neither the Australian Securities and Investments Commission (ASIC) nor the Australian Prudential Regulation Agency (APRA) have a direct role in monitoring or overseeing insurance premium setting, which is left as a commercial decision for the insurance industry. The Australian Competition and Consumer Commission (ACCC) has been directed to monitor and report on the Cyclone Reinsurance Pool's effect on insurance pricing, but it does not have a role in price monitoring the wider insurance market.

Key ask

- > Establish a permanent national general insurance pricing monitor either expanding the ACCC remit or creating an standalone body. The body should collect pricing information from insurers, publish aggregated data and research on trends and take complaints from consumers where insurance pricing decisions are unfair, inadequately explained or do not reflect verified mitigation measures.

Goal 3: Address insurance affordability

There is an insurance affordability crisis. Australians are struggling to pay for basic home insurance coverage. By its very nature this issue disproportionately impacts people on lower incomes who occupy a greater proportion of housing in more disaster-prone areas.

1.24 million

Australians are affordability stressed

Nearly one in eight Australian households (1.24 million) are now classified as affordability stressed, spending more than four weeks of their annual income on home insurance. Many Australians are underinsured while many more are uninsured – no longer able to afford insurance at all.

There is no one silver bullet and tackling insurance affordability in a changing climate will require government to introduce multiple measures to improve affordability.

Key asks

- > Fund ongoing community level mitigation at increased levels into the future
- > Expand the Cyclone Reinsurance Pool to cover all types of perils
- > Work with all stakeholders to ensure that no new development occurs in high-risk areas
- > Work with all stakeholders to ensure public risk information at the individual property level is available to insurers, homeowners and home buyers.
- > Develop pro-active buyback and resilience programs for households with very high natural hazard risk and where alternative mitigation measures are unlikely to manage the risk.
- > Develop targeted subsidies to assist those lower income households most in need as a transitional arrangement while mitigation or relocation activities reduce risk.

Goal 4 – Remove the confusion in general insurance contributing to underinsurance

Australians continue to misunderstand the insurance products they have purchased because of long, confusing and inconsistent product disclosure and unnecessary product complexity. It is almost impossible for consumers to compare insurance products because of the lack of standard terms or an effective standard cover regime. Many Australians end up with inappropriate products for their risks, or with unwelcome surprises at claims time.

General insurance terms and cover need to be standardised to ensure consumers, government and industry can work more effectively together to mitigate against the increasing risks we face. These improvements will help consumers compare and purchase affordable insurance products to effectively cover the risks they face.

Key ask

- > An independent panel should be established to assist government in a program of standardising general insurance terms and establishing more effective standard cover

Goal 5 – Ensure general insurers improve claims and complaints handling practices

In recent years, the experiences of Australians impacted by natural disasters who subsequently faced poor claims handling behaviour have been nothing short of re-traumatising. The general insurance sector failed its customers and failed to meet its foundational promise.

Supply chain problems and stretched labour markets are no excuse for poor communications practices, inappropriate behaviour and failing to meet basic service expectations.

Future extreme weather means becoming more common means that these pressures are the new norm. It is essential that insurers have frameworks

in place to deliver on their product and comply with consumer protection requirements.

Many of the reforms needed are in the hands of the insurance sector themselves. They must meet the moment and respond positively to recommendations to strengthen their code of practice including introducing financial hardship protections, complying with the ISO 22458 standard on vulnerability; addressing issues with delayed claims decisions, temporary accommodation, scope of works, expert reports and cash settlements.

However, the government needs to better oversee the claims and complaints behaviour of insurers and ensure that the sector steps up to meet the moment. There are specific law reform measures that the government should take that are consistent with the objectives of the National Plan to End Violence against Women and Children.

Key asks

- > Empower and direct ASIC to introduce more detailed guidance to insurers in their claims handling practices
- > Revisit the ineffective enforceable codes regime
- > Amend the Insurance Contracts Act 1984 to allow insurers to deem a joint insurance policy to be a composite policy in situations involving separation or divorce of co-insurers, and in situations where a victim-survivor's claim would ordinarily be denied due to the conduct of their perpetrator of financial abuse or coercive control.
- > Amend the Insurance Contracts Act 1984 to require a 'conduct of others' clause in all retail insurance policies.

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