

30 March 2012



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Manager
Financial Services Unit
The Treasury
Langton Crescent
PARKES ACT 2600

Email: icareview@treasury.gov.au

Dear Sir/Madam,

Re: Discussion paper – Key Fact Sheets for Home Building and Home Contents Insurance Policies

BT Financial Group (BTFG) welcomes the opportunity to respond to the discussion paper on Key Facts Sheets for Home Building and Home Contents insurance policies dated February 2012.

As you may be aware, BTFG is responsible for all of the wealth management businesses of the Westpac Group. Our responsibility extends to the insurance businesses of the Westpac Group, which includes Westpac, St. George, Bank SA, Bank of Melbourne and RAMS home and contents policies. All of our home and contents policies provide cover against damage caused as a result of any type of flood, including flash and riverine flooding. As a result we were one of the few insurance providers to cover both flash and riverine flooding during the recent natural disasters. We also recently adopted the new standard definition of flood for all our home and contents policies.

BTFG supports initiatives that help consumers better understand their insurance policies and in particular what they are covered for, and what is not covered.

1. The format and content of the Key Fact Sheet should be prescribed

BTFG believes simplified disclosure for home buildings and home contents policies is critical to helping consumers understand their policy and enabling comparisons.

In order to achieve the objectives of providing transparency in disclosure to consumers we believe the format and content of the Key Fact Sheet needs to be prescriptive. A set format will ensure greater consistency in the information provided by insurers and allow consumers to more easily compare the features and cover provided by different home building and home content policies.

The difficulty consumers faced in understanding their insurance contracts during recent natural disasters will continue to be a risk if the Key Fact Sheet is not prescribed.

Recommendations:

- We recommend that the format and content of the Key Fact Sheet be prescribed by Government and should be developed by Treasury in consultation with the Financial Services Disclosure Advisory Panel, the ICA, ASIC, FOS and consumer advocacy groups.
- We recommend that comprehensive consumer testing of the prescribed Key Fact Sheet be undertaken to ensure the format improves, and does not hinder, consumers' understanding of home building and contents policies.

2. The purpose of the Key Fact Sheet should be clearly disclosed

We believe that clearly understanding the purpose of the Key Fact Sheet is crucial for consumers. The Key Fact Sheet should clearly disclose that it provides a summary of the policy that the consumer is considering, and should not be viewed as a replacement for the Product Disclosure Statement. In addition, the Key Fact Sheet should direct consumers to read the Product Disclosure Statement for further details of the before making the purchase decision.

Recommendation:

We believe that the wording for "How to use the KFS" should be a combination of options 1 and 2 used in the discussion paper. We recommend:

"This KFS is to be used as an informative guide and does not contain all relevant information about this policy. This Key Facts Sheet is NOT a comprehensive disclosure document and you should read this policy's product disclosure statement before taking out the policy."

3. Content that should be included in the Key Fact Sheet

Classification of insurance policy

We believe that disclosing the type of policy on the Key Facts Sheet, with a clear and simple description of the type of policy being offered is appropriate. However to avoid consumer confusion as to the type of policy being offered, we do not believe that the other types of policy classifications should be on the Key Fact Sheet.

We also support the classification of policies into 3 broad types – sum insured, sum insured plus margin and total replacement policies.

Prescribing a standard description for each of the 3 policy types would ensure consistency for consumers. However we believe the descriptions need to be subject to further consultation to ensure they are not misleading. We do not support the descriptions of the 3 policy types as used in the discussion paper as we believe they are not necessarily complete and include opinions which could mislead consumers.

For example:

- Sum Insured Policies and Sum Insured Plus Policies – the description in the discussion paper indicates that the ability for the insured to set their own maximum payout may lead to underinsurance and as it can be difficult for consumers to

properly estimate their potential maximum. We believe the description is oversimplistic and incomplete, and does not recognise that many insurers offer tools to assist consumers to properly estimate the value of their building and contents. Furthermore, sum insured and sum insured plus policies actually offer greater flexibility for the consumer to receive a cash payment or have a home built to newer standard in the case of a total loss.

- Total Replacement Policy - the description in the discussion paper states that the policy provides for replacement of the home building in the event of a significant event thus effectively removing the possibility of underinsurance. Again the statement oversimplifies the situation and we believe is incomplete. Many total replacement policies in the event of total loss provide replacement to an “as was” position. As a result, the policy may actually lead to underinsurance as many consumers believe these policies will provide them with a new home built to more modern standards when that is not always the case.

We believe that the standard definitions should be along the following lines:

- Sum-Insured Policies give consumers the flexibility to select the maximum amount of cover in the event of a significant loss in respect for the home building or home contents.
- Sum-Insured Policies plus Margin give consumers the flexibility to select the maximum amount of cover and offer an additional amount above this in the event of a significant loss for the home building or home contents.
- Total Replacement Policies require consumers to provide information regarding their home so that the insurer can estimate the home’s value for the full replacement of the home building in the event of a significant loss for the home buildings.

Recommendations:

- We support disclosing the type of policy on the Key Facts Sheet, with a clear and simple description of the type of policy being offered.
- To avoid consumer confusion as to the type of policy being offered, we do not believe that the other types of policy classifications should be on the Key Fact Sheet.
- We support the classification of policies into 3 broad types – sum insured, sum insured plus margin and total replacement policies.
- We would support the use of a standard definition for each of the 3 policy types, but subject to consultation on the definitions to ensure they are not misleading.

Prescribed events

As per our earlier recommendation, we believe that the Government should clearly define the content of the Key Facts Sheet, including the prescribed events to be covered.

We believe that the list of ‘standard cover’ in the Insurance Contracts Regulations should not form the basis for the prescribed events to be disclosed. The list in the Insurance Contracts Regulations is too exhaustive and does not include all natural disaster events.

The list should include the events that are likely to have the most significant financial or social impact on consumers, especially where insurers may differ in how they provide cover.

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For example, cyclone and storm surge are natural disaster events with significant financial impact on the consumer, and for which there are differences in the way that insurers provide cover. Some cover storm surge with limitations, and some do not cover at all.

Consumers need greater clarity in terms of what is covered for natural disaster events and in language that is simple and clear to understand. Only material exclusions to these items should be included in the Key Fact Sheet and any non-material items should be in the Product Disclosure Statement.

Recommendation:

The list of prescribed events should include the events that are likely to have the most significant financial or social impact on consumers – including natural disaster events such as floods, cyclones, storm surge and fire.

Excesses

We do not believe specific information on excesses needs to be included in the Key Fact Sheet because excesses can vary greatly at the consumer's discretion.

Furthermore, information on the consumer's chosen excess is clearly disclosed in the policy schedule they receive when they purchase the insurance.

Recommendation:

Specific information on excesses should not be included in the Key Fact Sheet because it can vary based on consumers discretion, and is appropriately disclosed in the policy schedule.

Sub-limits

We believe that any sub-limits for the policy should be included in the Key Fact Sheet in the "What is not covered" section or "Limitation of cover section" relating to that item as sub-limits are usually set by the insurer. Disclosing the sub-limits in the Key Fact Sheet would provide greater transparency to consumers and help reduce the risk of not understanding this element of the policy.

Recommendation:

We believe that any sub-limits for the policy should be included in the Key Fact Sheet in the "What is not covered" section or "Limitation of cover section" relating to that item

Other information

Other important matters which should be included in the Key Fact Sheet that would benefit consumers is a statement about how to make a claim, as well as how they can find additional information about the policy.

Recommendation:

We recommend that the Key Fact Sheet include information about how to make a claim, and where to find additional information such as by phone, internet, and the Product Disclosure Statement.

4. Better accessibility requires flexibility in the provision of the Key Fact Sheet and electronic distribution

To provide consumers with better accessibility, we also believe that insurers should be given some flexibility in when they are required to provide a Key Fact Sheet, and the ability to provide it electronically. Flexibility will improve customers' experience with insurers and enable insurers to deal with consumers more efficiently, and in a way that many consumers want to transact such as over the telephone or internet.

For example, in many instances consumers wait until the last moment before they purchase a policy and want immediate cover. An exemption should be allowed in these circumstances to provide the Key Fact Sheet with the Product Disclosure Statement, as soon as practicable and within 14 days after the contract is entered into. The consumer can always elect to cancel their policy with a full refund of premiums if it does not suit their insurance needs within the 21 day cooling off period.

We support the principle that a Key Fact Sheet should be available at the time a consumer is making decisions about their insurance cover. However from an insurer's perspective it is not always practical to provide the Key Fact Sheet to consumers where the consumer is inquiring to purchase the insurance cover. We believe that in some circumstances it is appropriate for insurers to provide a Key Fact Sheet after the inquiry or purchase, and allowing the insurance to be provided is better than the consumer not having cover until they get access to the Key Fact Sheet.

Recommendation:

We recommend that a similar exemption as per Section 69 of the Insurance Contracts Act be introduced to permit the provision of a Key Fact Sheet within 14 days of purchasing a policy.

Under current law, the ability for an insurer to provide a Product Disclosure Statement to potential customers in an electronic format is not clear. The industry needs clarity to allow insurers to provide both the Product Disclosure Statement and Key Fact Sheet electronically in accordance with the Electronic Transactions Act 1999 (Cth).

Recommendation:

- We recommend the Key Fact Sheet should be able to be provided electronically to customers.
- The Government should adopt the Electronic Transactions Act 1999 (Cth) communication standards for electronic distribution of Product Disclosure Statements, and apply these standards to Key Fact Sheets.

5. Cost to develop and produce the Key Fact Sheet

We believe the benefits to be gained by enhancing consumer awareness of home and contents insurance policies, outweighs the additional costs of introducing Key Facts Sheet.

We estimate that the initial design and printing costs for a one page A4 Key Fact Sheet will be in the order of 7c per Key Fact Sheet based on the production of 200,000 Key Fact Sheet. However enabling the Key Fact Sheet to be distributed electronically will reduce this cost.

We believe that the greater impact will be to change systems and processes to ensure that a Key Fact Sheet is provided to customers at the time of making an inquiry. A

detailed change management program including communication and training will be required across all our retail employees, call centre staff and home lending managers who are the primary distribution channel of our home and content policies. We estimate the once-off costs will be in the order of \$350,000.

We believe that allowing insurers some flexibility in providing a Key Fact Sheet in circumstances where it is not possible to do so at the time of inquiry, and allowing electronic distribution, will assist in reducing this cost.

Recommendation:

We recommend that the single page format of a Key Fact Sheet be adopted with electronic distribution to minimise costs to the industry.

We would welcome the opportunity to discuss our recommendations in more detail, and to work constructively with the Government to develop the Key Fact Sheet further. Please do not hesitate to contact Alyson Clarke on (02) 8253 1702, or myself on (02) 8253 6602.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jim Glossat', with a stylized flourish at the end.

Jim Glossat
Head of General Insurance