

23 March 2012

The Manager
Financial Services Unit
The Treasury
Langton Crescent
PARKES ACT 2600

Email: icareview@treasury.gov.au

Dear Sir/Madam

Re: Consultation Paper – Key Facts Sheet for Home Building and Home Contents Insurance Policies

RACQ Insurance (RACQI) was established in 1971 and is wholly owned by the Royal Automobile Club of Queensland (RACQ), which is in turn owned by over one million Queensland members as a mutual organisation.

RACQI remains committed to working with the Government and supports measures that ensure that consumers clearly understand the scope of cover provided in the products that they purchase.

It is important that any measures designed and adopted to achieve this objective do not have any unintended negative outcomes for consumers and the market.

RACQI welcomes the opportunity to provide comment on the proposed Key Facts Sheet (KFS) for Home Building and Home Contents insurance policies and we would encourage the Government to consider the views and proposals contained within this submission.

Definition of Types of Policy

1. The consultation paper categorises Home Building and Home Contents insurance policies into three (3) different categories to deal with claims settlement in the event of a 'total loss'. They are:
 - Sum Insured Policies;
 - Sum-Insured plus Margin; and
 - Total Replacement Policies.

These categories offer little assistance in dealing with the basis of cover for the majority of losses.

2. RACQI offers Sum-Insured plus Margin policies (as defined by the consultation paper). It is our experience that only around 0.1% of claims are severe enough where the quantum of the loss exceeds the customer's nominated sum insured and the 'margin' is required.

3. For this reason we believe that the type of policy categories should be cast in such a way that they are relevant to a broader range of consumers.
4. The majority of Home Building and Home Contents insurance policies in the Australian personal lines market are what are termed ‘defined events’ policies. This means that cover will only be provided for those events that are listed in the customer’s Product Disclosure Statement (PDS).
5. Alternatively, some policies are provided on an ‘accidental damage’ or ‘comprehensive’ basis which essentially covers any unintended occurrence that results in a financial loss to the consumer. This concept is common place in motor vehicle insurance.
6. It is the view of RACQI that a number of consumers assume that their Home insurance policies operate in a similar nature to their motor vehicle policy (ie ‘Comprehensive cover’) and that this point alone can form the basis of confusion around the scope of cover provided.
7. RACQI proposes that the KFS categorise policies according to whether they are ‘defined events’ or ‘accidental damage’ policy.
8. RACQI proposes that the method for determining the maximum sum insured should not be used.

PRESCRIBED CONTENT

9. The stated purpose of the KFS is for it to be “a one page document which summarises key information about a Home Building and Home Contents insurance policy.”ⁱ With this objective in mind, RACQI believes there are a number of limitations with the approach proposed in the consultation paper.
10. Given the length of the standard cover provisions in the Regulations, RACQI agrees with the observation made in the consultation paper that “there is a limit to the number of events that can be included on a one page KFS”.ⁱⁱ To illustrate this point we note that in addition to the events covered, the proposal examines the inclusion of a section which summarises the key defined events that are not covered. It also provides explanations of the cooling off period, Wayne Tank principle and other product ‘health warnings’.
11. The volume and complexity of the content required to adequately explain these aspects of the policy cover is substantial and RACQI does not believe that the consumer would be best served by a document which prescribes that certain standard cover provisions and exclusions be included at the expense of others.
12. RACQI believes that the one page KFS containing the definitive scope of cover for a particular product has scope to inadvertently mislead consumers.
13. There are inherent dangers in assuming what standard cover inclusions and exclusions will be relevant to consumers. Financial services products are purchased based on individual needs and objectives. For example, to limit the prescribed content to natural catastrophe losses, would ignore the fact that the majority of Home insurance claims are of a ‘working loss’ nature (ie glass breakage, motor burnout etc.). These claims are generally of a high frequency/low severity nature and effect broader sections of the community.

ⁱ Treasury Discussion Paper – Key Facts Sheet: Home Building and Home Contents Insurance Policies, P7 paragraph 1.

ⁱⁱ Treasury Discussion Paper – Key Facts Sheet: Home Building and Home Contents Insurance Policies, P12 paragraph 26.

14. These outcomes would not be consistent with the objective of clearer disclosure for consumers.
15. Many Home insurance products offer benefits and features over and above the standard cover provisions. As one of the purposes of the KFS is to allow consumers to compare Home insurance products, RACQI is of the view that the absence of any additional benefits and features from the KFS would not provide consumers with an adequate comparison.
16. Consideration also needs to be given to the cost and complexity for insurers to implement what would effectively be an additional notice that would require variable text based on the type of policy and, in some cases, the policy options that the consumer has elected to purchase (or not purchase) as the case may be.
17. Dependant on an individual insurer's transaction and new business and renewal documentation platform, the implementation of such a solution can come at considerable cost and risk.
18. RACQI would support a regime which assists consumers in understanding where to find relevant product information in the PDS. For example, the KFS could contain references to relevant sections (and page numbers) in the PDS that relate to what is or is not covered.
19. This approach would further guide consumers through the PDS and allow them to fully consider the product they have purchased (or considering to purchase) based on their own needs and objectives.

COOLING OFF PERIOD

20. RACQI supports the inclusion of dialogue that clearly informs the consumer of the 'cooling off period'. We see this as a key protection measure that allows consumers appropriate time to consider whether the policy they have purchased will meet their needs.

WARNINGS/STATEMENTS

21. We would agree that there is benefit in providing a brief outline on the KFS to explain its purpose and the fact that it should not be relied upon to make a purchase decision, (particularly given the limitations outlined in the 'Prescribed Content' section of this submission).
22. The adoption of an approach where the KFS directed the consumer to the relevant section of the PDS would allow for greater emphasis to be placed on how to use the KFS and the PDS together.
23. In terms of greater consumer protection and education, this would be a far more desirable approach than dialogue committed to protecting consumers from taking 'short cuts' and not reading their PDS in favour of the shorter, but incomplete, KFS.

WAYNE TANK PRINCIPLE

24. The Wayne Tank principle is a complex legal concept that can be relevant in the determination of coverage for property inundation claims. RACQI would contend that in an environment where insurers will be offering flood coverage as standard, the need for the inclusion of an explanation regarding the Wayne Tank principle would diminish.
25. With all principles of law, it is subject to legal interpretation and challenge. The ACCC unsuccessfully challenged the Wayne Tank principle in 2003 and future challenges cannot be ruled out.

PROVISION

26. In the Australian direct personal lines market, a large volume of premium quotations are provided verbally through call centre sales channels. In these situations, consumers will normally be asked a series of questions in order to determine their premium.
27. These transactions can be of an anonymous nature and therefore do not require any paperwork to be generated and sent to the customer.
28. Similarly with internet based quoting, customers are not generally required to submit their full personal details.
29. The introduction of a regime which requires insurers to send a KFS (and other associated paperwork) to the customer would add significant cost to the new business quotation process by virtue of the increased processing time and documentation required.
30. Ultimately, insurers would be forced into a position where these additional acquisition costs would be passed onto the consumer.
31. We do however support an approach where insurers are obliged to provide a KFS to consumers that are going through the process of purchasing a new business policy, which will necessarily include an insurer's full underwriting process as opposed to the abbreviated quotation process.
32. The existing financial services product 'cooling off period' provisions under the Corporations Act 2001, allow the consumer within the prescribed timeframe, to review both the KFS and PDS and assess whether the product meets their needs.
33. This approach does not disadvantage the consumer as they are able to advise their insurer that the product does not meet their needs and are able to obtain a full refund of their premium.

We hope that this submission has been of assistance and confirm that RACQ Insurance is happy to provide further assistance as required.

Yours sincerely,



Bradley Heath
Chief Executive Officer
RACQ Insurance Limited