



Key Facts Sheet: Home Building & Home Contents Insurance Policies

Submission Paper
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1. Introduction

This submission responds to the questions posed in the Key Facts Sheets: Home Building and Home Contents Insurance Policies discussion paper released in February 2012.

Providing consumers with a Key Facts Sheet about the home building and home contents cover is one of the key recommendations of the Natural Disaster Insurance Review (NDIR) Inquiry into flood insurance and other related matters.

This submission states the position of Assetinsure with respect to the questions raised in the discussion paper. It also highlights issues that we envisage regarding the practicality of some of the discussion points and the challenges in their implementation. Further, it raises the question of accountability for compliance especially in an intermediated business that relies on independent brokers for distribution.

1.1 About Assetinsure

Assetinsure Pty Ltd (ABN 65 066 463 803) is a general insurance company licensed by the Australian Prudential Regulation Authority (APRA). This brief summary is to provide an overview of major corporate features with respect to its products and distribution models. Please refer to our website for further information: www.assetinsure.com.au

1.2 Products & Distribution Model

Assetinsure or the agents acting on Assetinsure's behalf mainly serve its insured customers through a panel of independent brokers. Whilst Assetinsure mainly provides corporate insurance, through its connection with Insure That Pty Ltd (ABN 98 088 296 324) it also underwrites home and contents insurance products.

This business strives to meet most of the general insurance needs of its customer base under a single policy by offering them insurance packages for their homes, contents and motor vehicles. As a result, Assetinsure has a significant portfolio of home buildings and home contents in regional and rural Australia. Through its Farm Protection package policies, home and contents protection is often provided in conjunction with the insurance for the insured's cars, farm vehicles and machinery, farm property and livestock.

With this background in mind, we focus in our submission on specific aspects of the Key Facts Sheet discussion paper instead of covering it in its entirety.



2. Submission

Assetinsure generally supports the concept of Key Fact Sheet (KFS) as it will provide a succinct overview of the key features of an insurance policy, viz. the basic terms and conditions, the nature and level of cover and key exclusions if applicable, to the consumers. We believe that this initiative will go a long way in improving the consumer understanding of the home insurance cover and will allow them to make the appropriate decisions that best suit their individual circumstances.

At Assetinsure, we are keen to implement the KFS for all our home building and home contents products. However, there are a few issues on which we would like to state our position and suggest amendments to address them.

2.1 Package Products

Our insurance policies are designed as packages to meet most of the personal insurance needs of all Australians living in regional and rural communities. As an example, our Farm Protection Pack consists of up to 13 sections which include not only home building and home contents but also domestic motor vehicles, farm property, machinery and livestock.

Given that the prime objective of the KFS and its concise nature to which we totally agree, we opine that only the relevant sections of our package policies, viz. home buildings and home contents be included in the KFS.

We, therefore suggest that section 2.1.1 and paragraph 13 of the discussion paper be amended to read as following:

2.1.1 The name **and the section** of the policy

13. The name of the insurance policy **and the relevant section** is considered to be.....

2.2 What is covered

2.2.1 Standard Cover

Paragraph 26 under the section 2.1.3 of the discussion paper proposes that only those events that are most beneficial for effective consumer decision making should be included in the KFS. The other approach stated in the same paragraph is to restrict the events to those which cause the most confusion or have the most significant financial impact.

We do not agree with either of the approaches stated above. The purpose of the KFS is to be an information guide about the cover so that the consumer can assess their insurance needs against it



and make informed decisions. Withholding some of that information from the KFS is detrimental to the interests of both the consumer and the insurer as it will lead to more confusion for the consumer and consequently, increased servicing costs for the insurer.

We believe that all the prescribed events should be included in the KFS. This information when presented in a tabular format can be accommodated within the length requirements of the KFS.

2.3 What is NOT covered

We acknowledge that there are practical challenges in including all the exclusions on the KFS given its length requirements and thus, agree in principle to have only the critical ones included on the KFS. However, there are a few important issues that need to be addressed first:

- Criteria for deeming an exclusion as critical
- Criticality from whose perspective – consumer or insurer?

Further, there is a possibility that consumers may perceive an insurer's products unfavourably even though the insurer is acting in the consumers' best interests by stating as many critical exceptions as possible upfront in the KFS. On the other hand, an insurer which only states minimal critical exclusions may be viewed more favourably by the consumers even though more exceptions could exist in the PDS.

In other words, we would require robust guidelines to be in place for all insurers for reporting on critical exclusions. Any non-adherence to those guidelines by an insurer should be regarded as seeking competitive advantage by unfair means and should result in the offending insurer being sanctioned.

2.4 Sub-limits and Excesses

All insurers have multiple sub-limits on their home building and home contents policies, particularly for home contents. These sub-limits can be subjected to certain conditions which cannot be stated on the KFS due to its length requirements.

We opine that stating the sub-limits on the KFS without the conditions will be misleading for the consumers and thus, should be avoided.

A similar argument holds true for excluding the excesses from the KFS.

We support the inclusion of a statement on the KFS advising the consumers of multiple excesses and/or sub-limits that may apply to their policy. We consider the proposed wording as stated in the paragraph 49 under section 2.1.5 as adequate.



2.5 Cooling Off Period

Paragraph 58 of the discussion paper under section 2.1.6 includes the proposed wording of the statement on cooling off period. This wording in our opinion fails to protect the insurer's interests and can subject them to a scenario where the insurer may be expected to pay a claim for a policy cancelled during the cooling off period.

We, therefore suggest that paragraph 58 under section 2.1.6 of the discussion paper be amended to read as following:

58. Proposed wording of the statement on the cooling off period

*A cooling off period of ** days applies in relation to this policy. The cooling off period allows you to cancel this policy **for a full refund of premium paid provided you have not made a claim on your policy.***

We propose 21 days as the standard cooling off period.

2.6 Warnings / statements

2.6.1 How to use the KFS

We opine that a brief statement be included on the KFS highlighting its informative nature rather than being a one page substitute for the PDS. It should also highlight that in case of an unintended discrepancy between the KFS and the PDS, the PDS will be considered as the legally binding document.

We, therefore suggest that **Option 2** stated under paragraph 63 of the section 2.1.7 be adopted with the following amendment:

63. The proposed wording for the "How to use the KFS" statement

Option 2

*This KFS is to be used as an informative guide and does not contain all relevant information about this policy. The KFS is not a substitute for this policy's product disclosure statement (PDS) and should not be used as such. **The PDS was and continues to be the legally binding document for all purposes.***

2.6.2 General consumer warning / risk statement



As stated in paragraph 65 under section 2.1.7 of the discussion paper, the intention behind the general consumer warning / risk statement is to alert the customers regarding the possibility of significant differences in the level of insurance cover in case of an insurance event.

Our view on the proposed wording is that firstly, it is not specific enough in communicating the said intention to the customer and secondly, its intention and the proposed wording are very similar to that of the Health warning.

We, therefore propose that the general consumer warning / risk statement is not explicitly required on the KFS and the health warning should be used instead.

2.6.3 Health Warning

The onus of making informed decisions regarding their insurance needs rests squarely with the customers. As insurers, we endeavour to explain the insurance cover to our customers as clearly and succinctly as possible but we cannot advise them on its suitability with respect to their insurance needs.

We, therefore agree to the inclusion of a health warning on the KFS which clearly states that the customers are responsible for making decisions regarding the suitability of the insurance cover to their insurance needs.

We also propose that the health warning be included for all policies whether they offer full flood or full replacement cover, or not.

We support the proposed wording of the health warning once the grammatical errors have been addressed.

2.6.4 The Wayne Tank Principle

We are of the opinion that the Wayne Tank Principle is outside the intended scope of the KFS which is to be an informative guide about the cover for the customers. The Wayne Tank principle is one of the technicalities of the claims settlement process and that is not intended to be a part of the KFS.

We believe that inclusion of the Wayne Tank Principle is likely to cause more confusion for the customer and thus, result in significant increase in service costs for the industry. Additionally, the intended benefit for its inclusion may not get realised as a large majority of the claims can be attributed to a single cause. Lastly, inclusion of this principle in the KFS will be detrimental to the insurers' interests as the customers will claim the entire damage under the peril that is covered by their insurance policy.



2.6.5 Additional informational statements

We agree with the statement in paragraph 74 of the discussion paper regarding the need to keep the KFS as uncluttered as possible.

The intention of the KFS is to allow the customer to understand the cover and ascertain its suitability to their insurance needs. Therefore, we recommend including only those generic statements in the KFS that either have a direct relation to the insurance cover or encourage customers to review its suitability to their insurance needs.

We propose that the following statements be included in the KFS:

- A statement warning that other exclusions and limitations may apply in relation to the relevant policy and that the consumers should read the policy's product disclosure statement in order to become fully aware of all the exclusions and limitations that may apply
- A statement encouraging customers to actively review their insurance decisions on an annual basis to ensure their insurance needs are still being met

While the intention behind these statements has already been included in other statements / warnings, nevertheless we cannot stress enough on their importance especially in the context of 2010/11 flooding in Queensland, New South Wales and Victoria.

2.7 Provision

2.7.1 When the KFS is required to be provided

While we agree with the situations where the provision of a KFS is not required, it will be extremely difficult for the insurers to keep track of the version of KFS provided to the customers and for which policy. This will require significant changes to the insurance systems industry wide and yet non-compliance may still happen due to the complexity involved.

We believe that the highest level of compliance regarding the provision of KFS will be achieved when the KFS becomes an integral part of the new business and the renewal cycles. These are also the times when consumers are actively reviewing their insurance needs and having the KFS will assist them greatly in making informed decisions.

We, therefore suggest that the provision of KFS be made mandatory at the following times:

- New business
- Renewal
- Endorsements
- When the customer requests



Also, the insurers would be required to maintain a “KFS Opt Out” register on the lines of the “Marketing Opt Out” or “Do Not Call” registers. A section of the consumers who have opted out of receiving any marketing material from the insurers may perceive the KFS as unsolicited marketing material and thus hold insurers responsible for not adhering to their wishes. To avoid such a scenario, the KFS has to be legally distinct from any other marketing / promotional material.

2.7.2 Method

We fully support electronic communication as the most efficient, compliant and the cost effective way of providing the KFS to the consumers. We will provide printed versions of the KFS to those consumers who request the “hard copy”.

Electronic communication will also ensure that the delays in the provision of a KFS to the consumer are minimal as a “soft copy” of the KFS is always available to them.

2.8 Failing to comply with the regulations regarding KFS

We agree in principle regarding the criminal penalties being applied to insurers that fail to comply with the KFS regulations. However, any criminal penalty and its quantum should take into consideration the different business and distribution models used by the insurers.

For insurers who employ the direct distribution model, the entire responsibility of the KFS with respect to its content, format, structure and its distribution lies with them. Thus, they can be held totally accountable to any non-compliance on any of the aforementioned aspects of the KFS.

Our business model, on the other hand, is an intermediated one with independent brokers acting as our distribution channels. We provide brokers with the systems, policy wording, pricing and underwriting support while the brokers are responsible for the distribution of policies and product disclosure statements.

We will hold ourselves accountable for any non-compliance with respect to the content, format or the structure aspects of the KFS. We will also ensure that the systems are modified and brokers are advised regarding the distribution of the KFS to the consumer. However, the broker alone is responsible for ensuring compliance with the distribution aspect of the KFS.

We, therefore propose that there be two scales of penalties based on the distribution model of the insurers.

Business Model	Criminal Penalty
Direct Insurers	150
Intermediated	90



3. Conclusion

Assetinsure supports the introduction of a Key Facts Sheet for Home Building and Home Contents Insurance policies. We would also apply the KFS to our Farm Protection Package policies where the insurance of the (farm) home and its contents forms a part of the insurance solution provided. We strongly believe that its introduction will help improve the consumer understanding of the home insurance cover and will allow them to make the appropriate decisions that best suit their individual circumstances.

We have highlighted concerns regarding the practicality of some aspects raised in the discussion paper and the challenges that lie ahead for all insurers in the implementation of those. We also seek more clarity on the accountability for compliance especially in an intermediated business such as ours.

Assetinsure would be willing to meet and consult on any of the points discussed in this submission paper.