



30 September 2019

Ms Maryanne Mrakovcic
Deputy Secretary
Revenue Group
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: AddOnInsurance@treasury.gov.au

Dear Ms Mrakovcic

RE: SUBMISSION TO THE TREASURY CONSULTATION ON PROPOSED REFORMS TO THE SALE OF ADD-ON INSURANCE PRODUCTS

The Qantas Group (the Group) makes the following submission to the Treasury consultation in relation to the Government's proposed reforms to the sale of add-on insurance products.

While the Group supports in principle the underlying policy aims of the Government's proposed reforms to the sale of add-on insurance products, we submit that travel insurance should be exempted from the proposed deferred sales model.

The Group is concerned about the unintended consequences of the proposed reforms that could increase the risk of underinsurance in Australia and in doing so, have a significant financial impact on travellers and our embassies and consulates abroad.

The Group's submission is based on a careful review of the stated policy aims underpinning the proposed reforms. In the Group's view, we submit that:

- The negative consumer outcomes which have been identified as part of the Royal Commission (which give rise to the current proposal) do not exist in relation to travel insurance, because of the manner in which it is designed and sold;
- The option to purchase travel insurance in the booking flow/at point of sale provides the best outcome for consumers by ensuring they are conscious of the product;
- The proposed application of a deferred sales model in connection with travel insurance is seemingly at odds with ASIC's previous findings in this area; and
- A deferred sales period in connection with travel insurance exposes the travelling public to a higher risk of underinsurance or no insurance, which can result in consumer harm.



The Group looks forward to discussing the contents of this submission with Treasury in the near future.

If you have any specific questions related to the content of this submission, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Andrew Parker', with a long horizontal flourish extending to the right.

Andrew Parker

Group Executive, Government, Industry, International, Sustainability

1. The Group's role in travel insurance

The Group distributes travel insurance under both its Qantas and Jetstar brands. Each brand has several different travel insurance products, which cover domestic and international travel, and range from basic cancellation cover to comprehensive cover.

Qantas travel insurance

Qantas travel insurance is distributed by Qantas on behalf of nib. Policies are sold through four channels:

- The Qantas website (qantas.com) alongside flight bookings;
- The Qantas Insurance website (insurance.qantas.com) as standalone products;
- The Qantas call centre alongside flight bookings; and
- The Qantas Insurance call centre as standalone products.

Jetstar travel insurance

Jetstar travel insurance is distributed by Jetstar for AIG. Policies are sold through the following channels:

- The Jetstar website (jetstar.com.au), alongside flight bookings as well as post booking using the website's 'Manage my Booking' functionality;
- The Jetstar Insurance website (jetstartravelinsurance.com.au), as standalone products; and
- The Jetstar Insurance call centre (operated by AIG), as standalone products.

2. The Group's position on deferred sales model

The Royal Commission highlighted issues with how some add-on insurance products were designed and sold and led to poor customer outcomes. The Group, therefore, supports the introduction of a deferred sales model for certain types of add-on insurance. However, for the reasons outlined below, the Group considers that travel insurance should be exempt from Treasury's proposed deferred sales model as a 'tier three' product.

Travel insurance is different to car yard insurance

The examples and issues brought to light in the Royal Commission in relation to add-on insurance sold in car yards do not extend to travel insurance. As discussed below, unlike car yard insurance, travel insurance is generally good value for money and well understood by consumers. When travel insurance is sold online or over the phone as an add-on to a travel booking, consumers are unlikely to feel pressured to make a purchase, which was one of the concerns raised in the Royal Commission.

Qantas offers travel insurance online, as part of the ticket purchase process. Customers not interested in this optional product can easily and quickly move ahead. For example, Illustration 1 below is a screenshot of Qantas' online flight booking form. Before completing the purchase of their ticket, customers are asked whether they want to buy travel insurance. If they do not, they can select 'No' and move on to payment details. This is very different to the way in which insurance is sold in car yards i.e. face-to-face, often under time pressure and using aggressive sales techniques.¹

¹ Financial Services Royal Commission Final Report pp.92, 288-292.

Illustration 1: Qantas online flight booking form

The screenshot displays the Qantas Travel Insurance section of a flight booking form. On the left, there is a graphic of an umbrella and the heading "Protect your trip with Qantas Travel Insurance". Below this, it states that Qantas Frequent Flyers can earn Qantas Points on selected policies. A detailed paragraph explains that some children are entitled to free cover, but others may need to purchase insurance from qantas.com/travelinsurance. It also notes that cover is required for passengers over 65 with pre-existing medical conditions or children under 12 who are not entitled to free cover. The text mentions that travel insurance policies are managed by nib Travel Services (Australia) Pty Limited and provides contact information. Logos for "FREQUENT FLYER" and "QANTAS INSURANCE" are shown at the bottom left.

On the right, under the heading "Prices are per passenger", three insurance options are listed with radio button selection:

- Cancellation and Baggage Insurance for passengers of all ages**: Cover for flight cancellation and baggage. T&Cs apply. [Summary of benefits](#).
 \$12.00 AUD 2,000 PTS
- Australian Comprehensive Insurance for passengers 69 years of age or under**: Cover for emergency travel arrangements, rental vehicle excess cover. Plus, earn 1 point per \$1 spent. T&Cs apply. [Summary of benefits](#).
 \$34.00 AUD 5,000 PTS
- Annual Multi Trip Insurance for Australian residents who are eligible for a Medicare card 69 years or under**: Cover for all trips in a year with 60-day max. duration for single trip. Earn 1 point per \$1 spent on premium, plus 1,000 bonus points. T&Cs apply. [Summary of benefits](#).
 \$545.00 AUD 74,000 PTS

At the bottom of the options, there is a radio button for "No, I don't want to insure my trip." Below the options, the total amount due is shown as "Due \$0.00 AUD".

ASIC and FCA have not proposed a deferred sales model for travel insurance

Based on a submission it made to the Royal Commission less than a year ago,² ASIC did not see a need for a deferred sales model for travel insurance. Indeed, in response to which add-on products a deferred sales model would be appropriate for, ASIC submitted that such a model should only apply to car yard insurance and consumer credit insurance (CCI).³ Accordingly, there appears to be no basis for extending the deferred sales model to travel insurance, particularly given the Royal Commission Final Report did not identify any ills in connection with this product type.

To the extent overseas practice is relevant, ASIC's submission to the Royal Commission is consistent with the approach taken by the UK Financial Conduct Authority (FCA). The FCA has introduced a deferred sales model for certain insurance sold in car yards and CCI. Despite having investigated general insurance add-ons,⁴ the FCA has not implemented a deferred sales model for travel insurance.

² Submission No. POL.9006.0001.0192 made by ASIC to Round 6 of the Financial Services Royal Commission, available at: <https://financialservices.royalcommission.gov.au/Submissions/Documents/Round-6-written-submissions/POL.9006.0001.0192.pdf> (ASIC Submission).

³ ASIC Submission pp. 22-25 (see footnote [2] above).

⁴ FCA Market Study 14/1: 'General Insurance Add-Ons: Final Report – Confirmed Findings of the Market Study', available at: <https://www.fca.org.uk/publication/market-studies/ms14-01-final-report.pdf>.

It follows that, if Treasury implements a deferred sales model for travel insurance, it will impose further regulation than what ASIC has previously said is necessary – in a manner inconsistent with a comparable jurisdiction.

A deferred sales model could result in higher rates of underinsurance

The Australian Government strongly encourages Australians travelling overseas to buy travel insurance. The 'Smart Traveller' website⁵ states 'If you're leaving Australia, travel insurance is just as essential as your passport' and 'If you can't afford cover, you can't afford to travel.'⁶

At present, many Australians travel without insurance. The Federal Government's Money Smart website confirms that 15% of 18-24 year olds travelled uninsured on their last overseas trip,⁷ and information on the Smart Traveller website indicates that 11% of people who travelled to Southeast Asia in the last two years went without insurance.⁸ The most common reason for someone travelling without insurance is that they 'just didn't think about it'.⁹

The above suggests that, as well as inconveniencing consumers, a deferred sales model would result in more Australians travelling without insurance, by imposing further barriers to its purchase. This would mean that more Australians would end up personally liable for significant medical and other costs they incur while travelling, and the Government would be called on more often to assist Australian travellers who run into trouble.¹⁰ As is self-evident, there are strong policy arguments against the introduction of a deferred sales model for travel insurance.

Separate to the issue of Australians not buying travel insurance is that of the non-availability of cover. If the proposed deferred sales model were implemented for travel insurance, so that consumers had to wait four days after booking flights to buy insurance, then two practical issues would arise:

- **Consumers purchasing flight tickets within four days of departure may be left without cover for the start of their trip.**¹¹ For example, if a consumer buys a flight ticket two days before the flight departs – and they wish to purchase insurance through their airline as an add-on to their flight ticket – they will not be able to do so until two days into their trip. This means the consumer will be left without cover for the first two days of their trip.
- **Consumers may lose the benefit of up to four days' worth of trip cancellation cover** (which is generally available from the time of purchase of travel insurance). For example, if a consumer buys a flight ticket two weeks before the flight departs, and they wish to purchase insurance through their airline as an add-on to their flight ticket, they will have to wait four days after buying the flight ticket to purchase insurance. If an event occurs during the four-day waiting period which causes the consumer to cancel their trip, they will not have such cancellation cover.

⁵ The 'Smart Traveller' website is operated by DFAT and is available at: <https://smartraveller.gov.au>.

⁶ 'CHOICE travel insurance buying guide', available at: <https://smartraveller.gov.au/guide/all-travellers/insurance/pages/choice-travel-insurance-buying-guide.aspx> (CHOICE Buying Guide).

⁷ The 'Money Smart' website is operated by ASIC. See the travel insurance infographic available at: <https://www.moneysmart.gov.au/insurance/travel-insurance/australians-and-travel-insurance>.

⁸ Quantum Market Research Report dated July 2018 on 'Traveller Behaviour in South East Asia', available at: <https://smartraveller.gov.au/guide/all-travellers/insurance/Documents/2018-survey-of-Australian-travel-insurance-behaviour.pdf> (Quantum 2018 Report).

⁹ Quantum 2018 Report (see footnote [8] above).

¹⁰ According to the Quantum 2018 Report (see footnote [8] above), 13% of people who travelled to South East Asia without insurance expected they would receive an Australian government contribution to any medical expenses incurred.

¹¹ Around 20% of people purchase travel insurance in the week prior to departure, according to Sydney Morning Herald article dated 20 November 2017 titled 'Families worst hit by Christmas travel insurance mark-ups', available at: <https://www.smh.com.au/money/planning-and-budgeting/families-worst-hit-by-christmas-travel-insurance-markups-20171120-gzoq6.html>.

Travel insurance represents good value for money

There are several ways to measure the value that consumers derive from an insurance product. As ASIC and Commissioner Hayne have identified, one measure is claims ratios. This looks at what a consumer pays in premiums versus what a consumer gets back in claim pay outs. Other measures of value include price, extent of cover, claims rates, and claims acceptance rates.

ASIC reviewed five add-on insurance products which are sold through car yard intermediaries and found that the average claims ratio across the products was around 9%.¹² ASIC noted that this claims ratio is 'substantially lower than' the claims ratios for other general insurance products including travel insurance, which ASIC said had an average claims ratio of 44%.

Travel insurance is relatively affordable when compared with the risk it protects against. For example, a Qantas Annual Multi-Trip policy for one adult is \$545 (whether bought with a flight ticket or on its own). This provides cover for unlimited trips within Australia and overseas for a year and provides coverage on any airline – not just Qantas. The average premium for a Qantas international comprehensive policy was \$200 over the past 12 months. By contrast, according to information previously on the Smart Traveller website¹³:

- Daily hospital costs in Southeast Asia regularly exceed A\$800;
- Return of remains from Europe can cost in excess of A\$10,000; and
- The cost of medical evacuations from the United States regularly ranges from A\$75,000 to A\$95,000 and is sometimes up to A\$300,000.

According to Debt.org – America's Debt Help Organisation – the average cost of hospitalisation in the United States is \$A5,813 with an average length stay costing A\$23,162.¹⁴ In the past 18 months, Qantas travel insurance, for example, received one claim for A\$350,000.

Insurable events are fairly common: the Smart Traveller website says one in four Australians experienced an insurable event on their last overseas trip – with some of the most common insurable events being medical treatment, flight cancellations, and lost/stolen luggage.¹⁵ This means that consumers are often able to make use of their travel insurance.

Travel insurance claims are usually accepted. According to the Smart Traveller website, in the 2016-17 financial year, Australian travellers lodged almost 300,000 insurance claims and around 85% of those claims were paid out.¹⁶ As can be seen, the consumer outcomes in relation to travel insurance differ from the types of car yard insurance considered in the Royal Commission. The resulting regulatory treatment should therefore be different.

The travel insurance industry is competitive

According to information on the Smart Traveller website, around 30% of Australians travelling overseas visit a price comparison website at some stage in the process of purchasing travel insurance.¹⁷ For example, Australia's biggest financial comparison site Canstar 'compares over 400 travel insurance policies from 70+ providers'.¹⁸ The fact that many Australians are shopping around for travel insurance should keep pressure on insurance providers to develop better products, and lead to better consumer outcomes.

¹² ASIC Report 492: 'A Market that is failing consumers: The sale of add-on insurance through car dealers', available at: <https://download.asic.gov.au/media/4042960/rep-492-published-12-september-2016-a.pdf> (see pp. 14-15).

¹³ DFAT media release dated 4 May 2012 titled 'Ensure mum gets the break she deserves this Mother's Day', available at: <https://dfat.gov.au/news/media/Pages/ensure-mum-gets-the-break-she-deserves-this-mother-s-day.aspx>.

¹⁴ <https://www.debt.org/medical/hospital-surgery-costs>

¹⁵ CHOICE Buying Guide (see footnote [6] above).

¹⁶ CHOICE Buying Guide (see footnote [6] above).

¹⁷ Quantum Market Research Report dated July 2017 on 'Australians' Travel Insurance Behaviour', available at: <https://smartraveller.gov.au/guide/all-travellers/insurance/Documents/2017-survey-of-Australian-travel-insurance-behaviour.PDF>.

¹⁸ <https://www.canstar.com.au/travel-insurance/>

Travel insurance is well understood by consumers

The Australian Government has invested significant resources into educating consumers about travel insurance. The Smart Traveller and Money Smart websites each explain what travel insurance is, why it is important, and how to buy it. For example, Illustration 2 below is a screenshot of the Money Smart website, which includes a simple explanation of what types of risk travel insurance protects against.

Illustration 2: Money Smart explanation of Travel Insurance

What is travel insurance?

Travel insurance covers the costs of any unexpected events you might incur while traveling. When purchasing travel insurance, you pay an upfront premium to cover you for a set period. If you travel often, you can also purchase an annual travel policy.

What does travel insurance cover?

Travel insurance typically covers the financial losses caused by a range of events that may affect your trip before, during or even after it has occurred. This includes:

- medical expenses from personal injury or illness
- loss of luggage or personal items
- theft
- disruptions to your travel plans (e.g. cancelled flights, though it pays to check exactly which situations are covered).

In contrast to add-on car yard insurance and CCI, consumers have a good general understanding of travel insurance. As ASIC explains in a consultation paper about the sale of add-on insurance and warranties through car yard intermediaries:

...most consumers were largely unaware that add-on insurance products even existed until they were offered them at the end of the car purchase process.

This is in contrast to consumers' general awareness of other types of insurance such as home, home contents, travel and life insurance...¹⁹

The above statement by ASIC is consistent with findings from consumer research commissioned by nib, which found that over 70% of Australians say they would not go overseas without travel insurance, and three quarters of consumers know whether they are or are not covered under their travel insurance policy for their pre-existing medical conditions.²⁰

Very few consumers cancel travel insurance during the cooling-off period. Qantas records indicate that, over each of the last nine years, less than 1% of customers cancelled a Qantas travel insurance policy during the minimum 14-day cooling-off period. This contrasts with more complex insurance products, such as life insurance, which have high cancellation rates during the cooling-off period. In relation to those high cancellation rates, Commissioner Hayne said the following:

ASIC found that **20% of all policies** taken out between 2012 and 2017 **were cancelled during the cooling-off period**. ASIC considered that this may be taken to 'indicate that customers had immediately realised they had made a bad decision or had been pressured into buying a policy they did not need'.²¹

¹⁹ ASIC Consultation Paper 294, *The sale of add-on insurance and warranties through car yard intermediaries*, available at: <https://download.asic.gov.au/media/4422973/cp294-published-24-august-2017.pdf>.

²⁰ Travel Insurance Index 2018 - Pure Profile research commissioned by nib Travel Pty Ltd, involving 1,000 participants.

²¹ Financial Services Royal Commission Final Report p. 281.

Following ASIC's findings, as referred to above, the fact that very few consumers cancel travel insurance during the minimum cooling-off period suggests that most people know what they are getting when they take out a travel insurance policy.

Furthermore, given that add-on travel insurance is often sold online (rather than face-to-face or by phone), consumers have time to read about the policy they are considering and to work out whether it is appropriate for them (as opposed to the manner in which certain add-on insurance was sold to consumers, as considered in the Royal Commission). Consumers buying insurance online have access to multiple sources of product information including product summaries, schedules of benefits, and product disclosure statements. They have a very different experience to consumers who buy insurance face-to-face at car yards, under time pressure, and without access to the necessary information.

There are adequate consumer protections in place and on the way

Consumer interests in relation to travel insurance are already, or will be, adequately protected as a result of:

- The existing regulations under the Insurance Contracts Act, the General Insurance Code of Practice, and the Australian Consumer Law; and
- The additional regulations that will soon be implemented, such as the extension of the unfair contract term provisions in the ASIC Act to insurance contracts.

3. Conclusion

For the reasons set out above, the Group submits that the proposed deferred sales model is not needed for travel insurance.

In the alternative, to the extent that the proposed deferred sales model is implemented in relation to travel insurance, the Group suggests that travel insurance sold online as part of a ticket-booking process be subject to a specific exemption, in recognition of the fact that there appears to be little evidence of consumer harm from sales in this manner.