

18 August 2011

By email: NDIR@treasury.gov.au

Natural Disaster Insurance Review
C/- The Treasury
Langton Crescent
PARKES ACT 2600

Dear Review Panel

Letter of support—A consumer perspective on the NDIR Issues Paper

We write to provide our support to the consumer perspective on the Natural Disaster Insurance Review (**NDIR**) Issues Paper prepared by Chris Connolly. We participated in consultations during the preparation of the consumer perspective.

In addition to offering our support, we would like to make some additional comments in relation to:

- the need to deal with affordability of insurance, both in relation to home building as well as contents;
- restrictions on any incentive of insurers to set high premiums for flood cover where they will receive a subsidy; and
- a proposal to develop an Australian Standard on general insurance claims handling and assessment.

Affordability

We strongly support the recommendation in the consumer perspective that measures should be introduced to improve the affordability of insurance for low income consumers. We note the risk that automatic flood cover has the potential to increase levels of premiums—the proposed system of subsidies must ensure that insurance remains affordable, particularly for low-income and disadvantaged consumers.

In our view, non-insurance raises different but important considerations for both contents and home building (with contents) insurance. Households with contents insurance only are generally rental properties. Research suggests a high level of rental properties are not insured for contents—indeed over 60 per cent of tenanted properties do not have contents insurance.¹ Many of these uninsured properties are rented by people on low-incomes, including those living on welfare benefits or those living in public or social housing, young people, single people, and people from ethnic and migrant backgrounds.² For these groups, access to contents insurance is

¹ Tooth, R & Barker, G 2007, *The non-insured: who, why and trends*, Insurance Council of Australia, Sydney.

² Connolly, C, Gerogouras, M, Hems, L & Wolfson, L 2011, *Measuring financial exclusion in Australia*, report prepared for National Australia Bank, Centre for Social Impact, University of NSW, Sydney.

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increasingly essential—losing key household assets, like furniture or white goods, can significantly exacerbate personal health issues, social exclusion and financial wellbeing. We strongly support the recommendations of the recent report from the Brotherhood of St Laurence³ that more must be done to remove barriers to the uptake of insurance for these groups through, for example:

- the development of improved payment mechanisms like 'insurance with rent' schemes and payment of premiums via Centrepay;⁴
- the development of 'targeted' products, for examples renters products that focussed on the needs of tenants; and
- for excesses for low income consumers to be arranged as 'deductibles' so that consumers do not need to make an up-front payment in order for their claim to be processed

We also strongly support automatic flood cover to apply to contents insurance and for the proposed subsidy system to support more affordable insurance cover for currently excluded groups.

It is noteworthy that long after the publication of the ICA and earlier Brotherhood of St Laurence reports⁵ on non-insurance, not one mainstream insurer has allowed the option of fortnightly instalment payments through Centrepay for Centrelink recipients, even for asset rich, income poor pensioners, one of the specific non-insured groups identified in the ICA research. Note that the option of direct debit payments, especially for Centrelink recipients, is a different proposition to Centrepay. Direct debits are risky for low-income consumers as any timing errors in the payment of benefits or the debiting of their account may lead to the imposition of bank penalty fees for a dishonoured direct debit transaction or an overdrawn account and/or the charging of late payment penalties by the service provider. Further, as noted above, direct debits are generally offered only on a monthly basis (even though income tends to be credited on a fortnightly basis and thus this is the cycle used by lower-income people for budgeting). In addition, direct debits are generally withdrawn on the monthly date corresponding to the policy commencement date, not on a date corresponding to when the policy holder receives their income.

Other research appears to confirm the Brotherhood of St Laurence findings that current insurance products often fail to meet the needs of low- and lower middle-income consumers. A recent examination of home contents insurance policies for the Tenants' Union of Victoria has suggested that most contents policies are home owners' policies and of limited value to tenants.⁶ Even the renter's policies available for the research had a range of serious limitations, with one being merely a home owners' contents policy with minor variations. For example, the research revealed that most home contents policies are priced according to the dollar amount of contents covered by the policy. Many policies provide cover for a minimum of \$40-50,000 worth of

³ Collins, D 2011, *Reducing the risks: Improving access to home contents and vehicle insurance for low income Australians*, Brotherhood of St Laurence, Fitzroy, Vic.

⁴ Centrepay is a free, direct and voluntary bill paying service offered by Centrelink to persons receiving Centrelink payments. It allows regular amounts to be debited from a person's Centrelink payments, before they are paid to that person, and instead paid directly to businesses that are registered with Centrepay to pay bills such as rent, utilities such as electricity, gas, water and telecommunications, education fees, court fines and childcare.

⁵ Sheehan, G and Renouf G 2006, *Risk and reality: Access to general insurance for people on low incomes*, Brotherhood of St Laurence, Fitzroy, Vic.

⁶ Tenants Union of Victoria, *The Insurance Industry and the Needs of the Tenancy Market*, Denis Nelthorpe, 2008 (forthcoming, copy on file).

contents but most tenants do not need and cannot afford these more expensive traditional contents policies (by contrast the AAMI renter's policy provided cover for a maximum of \$25,000). As another example, most contents policies are sold on the assumption that the purchaser also has building insurance. Unfortunately for tenants, who do not have building insurance, this creates a policy gap that leaves them struggling to meet the costs of emergency accommodation in the event of a natural disaster. Building insurance provides cover for temporary accommodation costs, so home owners are covered. However, this sort of cover is not available under the home contents policies available to tenants.⁷

There are also affordability problems facing owner-occupiers seeking building and contents insurance. While current levels of non-insurance are lower for owner-occupiers are lower than the for tenants (according to the ICA report, only around 4 per cent of home owners are without building insurance and 12 per cent are without contents insurance), we are concerned that this is still a significant proportion and it is likely to be growing. With support of policies like first home owner grants and favourable economic conditions, many lower-income Australians have entered the housing market. The experience of financial counsellors suggests that many are struggling to maintain mortgage payments, and repossession notices have increased to their highest levels in over two years.⁸ As recommended by the consumer perspective paper, lenders could play a more significant role in ensuring that the asset they hold as security for the loan is subject to appropriate insurance. We also strongly encourage the proposed system of subsidies to operate to not exacerbate affordability for home building and contents insurance that includes flood cover.

Incentive for insurers to over-recover subsidies

In the consumer perspective paper, it is recommended that the central body (termed the "flood pool" in the Issues Paper) should not need to take on any risk or take any role in setting premiums. Rather, it suggests that insurers should set premiums and be eligible for subsidies which are set by the central body.

We support this proposal, particularly that an independent body would calculate the premium and collect it from sources who benefit from broader insurance coverage and risk mitigation (such as governments, councils and the insurance industry itself). We also support the proposal that the premium discount scheme be linked to flood mitigation and remedial work by appropriate parties (such as local councils who are responsible for zoning and building or strata owners and developers who may be responsible to meet building standards).

However, we are concerned that there may remain an incentive for insurers to set premiums at a level above that which covers the reasonable risk in relation to high-flood risk properties, given that they will be eligible to obtain a subsidy from the central body. We are concerned that competition among insurers won't work to set the full premium for such properties at a reasonable level, as consumers (the demand-side participant) will not be bearing the full cost of the premium (that is, they will only pay the premium net of the discount).

⁷ See also Lesley Parker, 'Keep your head above water', *Sydney Morning Herald*, 30 July 2008, available at www.smh.com.au/news/planning/keep-your-head-above-water/2008/07/28/1217097144036.html.

⁸ See, eg, Shelly Hadfield, 'Surge in home repossessions', *The Herald-Sun*, 23 July 2011, available at: <http://www.news.com.au/money/surge-in-home-repossessions/story-e6frfnci-1226100520336>.

We recommend that additional measures be put in place to ensure that insurers do not over-recover subsidies. This might involve a dispute mechanism procedure to be established to resolve disputes between insurers and the central body about the level of subsidy. Alternatively, it could be solved by a body overseeing the setting of premiums for high-risk flood properties, where eligibility for subsidies is available.

Australian Standard on general insurance claims handling and assessment

In a recent joint consumer submission to the Federal Treasury's consultation on reforms relating to the recent floods throughout Eastern Australia, consumer advocates made a recommendation to support the development of an Australian Standard for general insurance claims handling and assessment.⁹

As noted by the consumer perspective paper, the processing of claims by the insurance industry is possibly the greatest area of consumer concern. In addition to the areas of concern outlined in that paper, consumers have also raised concerns with:

- deterrence of consumers wishing to lodge a claim, evidenced by high levels of withdrawn claims identified by the Australian Securities and Investments Commission (**ASIC**) in its recent report;
- poor practices with regard to the collection and use of evidence, including technical evidence such as hydrologists and lay evidence such as eye witness accounts; and
- failure to provide refusal of claims without delay including proper reasons for refusal.

We note that there is a range of existing regulation relating to insurance, including that set out in the General Insurance Code of Practice as well as in the ASIC Regulatory Guides (particularly RG 139 and RG 165), these focus on complaint handling and dispute resolution, rather than on the handling and assessment of claims up to the point that the insurer makes a determination.

We also acknowledge that there is much experience and knowledge within insurers about what constitutes best practice in the steps that make up the process of receiving, handling and assessing general insurance claims. However, this experience has not been extended in any systemic way to standards across the industry more generally. We believe that individual insurers, the insurance industry more broadly, and Australian consumers would benefit from a new standard that addresses these issues.

Standards are generally established by consensus agreement and approved by Standards Australia, a recognised body. They are developed with the input of a variety of sectoral groups to meet pre-identified needs. Standards can also be called up as a regulatory requirements, which has occurred in relation to the Australian Standard on complaints handling and dispute resolution (ISO 10002).

We believe insurance claims handling and assessment would benefit from the development of a Standard, and could contribute to a reduction in consumer complaints. Such a standard would

⁹ Joint consumer submission, *Reforming Flood Insurance—Clearing the Waters*, May 2011, available at: http://www.treasury.gov.au/documents/2039/PDF/Consumer_Representatives.pdf.

also help to guide the Financial Services Ombudsman in reviewing insurer-consumer disputes regarding claims handling.

Please contact me on 03 9670 5088 or at gerard@consumeraction.org.au if you would like to discuss these matters further/have any questions.

Yours sincerely

CONSUMER ACTION LAW CENTRE

A handwritten signature in black ink that reads "Gerard Brody". The signature is written in a cursive, flowing style.

Gerard Brody
Director Policy & Campaigns

Copy to: Chris Connolly, chrisc@transia.com.au