

October 28, 2014

ASIC home insurance review highlights need to improve advice and disclosure rules

The findings in today's Australian Securities and Investments Commission (ASIC) review into home insurance support the Insurance Council of Australia's position that reforms to advice and disclosure regimes would improve the ability of consumers to make well-informed purchasing decisions.

Insurance Council acting CEO Karl Sullivan said the uncertain Corporations Act boundary between personal and general advice discouraged general insurers from providing more tailored information to consumers about their policies.

Though the ICA had been working with ASIC on these issues for many years, Mr Sullivan said general insurers still required greater confidence that they could provide basic information specific to the consumer's needs without crossing the line into personal advice.

Mr Sullivan said Australia's licensed general insurers were very tightly regulated around disclosure, unlike Unauthorised Foreign Insurers. This strict regulatory environment ensured consumers were provided with thorough information about the insurance they were purchasing, enabling them to buy on product features rather than only on price. He said insurers also consistently delivered on their promise to the community, paying out on average \$111 million in claims to policyholders each working day.

However, Mr Sullivan also said the existing product disclosure framework did not offer insurers enough flexibility to provide product information in more consumer-friendly formats.

"ASIC's report is a welcome contribution to the policy debate on financial advice and disclosure in the general insurance industry," Mr Sullivan said. "It reinforces the positions that the ICA put forward in August* in response to the Financial System Inquiry interim report.

"Though the ASIC review and the accompanying research show some gaps in consumer understanding of the products they purchase, overall insurers and their staff are serving the needs of their customers by providing information within the constraints of the current regulatory framework. However, the experience of ICA members is that this framework unnecessarily restricts the ability of licensees to provide simple product advice."

At present, general insurers are providing only broad guidance in most circumstances to customers who are buying or renewing their household insurance, and are referring them to a Product Disclosure Statement for the fine details.

Mr Sullivan said: "The time has come for these unnecessary restrictions on general insurers to be loosened to enable the easier transfer of information between the industry and consumers."

-MORE-

October 28, 2014

-CONTINUED-

He said the ICA would welcome an examination of how disclosure documents could be improved or supplemented to improve outcomes for consumers without adding to the regulatory burden.

Though ASIC identifies some enhancements that could be made to improve the provision of information to consumers, Mr Sullivan said ICA members reviewed their point-of-sale practices regularly and had already made improvements to their practices since ASIC conducted its review.

“ICA members will individually benchmark ASIC’s suggestions against their own practices and procedures,” Mr Sullivan said. “It should be noted that insurers provide information to consumers in a number of ways, and this should be assessed in a holistic way rather than focusing on any one channel in isolation.”

Mr Sullivan said the ASIC review and research highlighted the importance of consumer financial literacy in broadening understanding of, and decision-making on, household insurance products.

“The ICA’s financial literacy initiative, Understand Insurance, empowers consumers to make better, more informed insurance decisions and uses real stories of Australians to illustrate the importance of understanding the potential impact of unexpected events such as house fires, floods, bushfires and storms,” he said.

The ASIC review follows data released by the Financial Ombudsman Service (FOS), which indicated that consumer understanding of home insurance products had increased markedly over the past few years.

According to its latest annual report, disputes about home building insurance have fallen 22 per cent, with FOS attributing this to a much higher prevalence of insurance covering flood, greater consumer awareness about flood cover and improved industry practice.

-ENDS-

* FSI interim report submission:

<http://www.insurancecouncil.com.au/assets/submission/2014/august/ICA%20Submission%20to%20FSI%20Interim%20Report.pdf>