

Introduction

Legal Aid Queensland (LAQ) provides input to State and Commonwealth policy development and law reform processes to advance its organisational objectives. Under the *Legal Aid Queensland Act 1997*, LAQ is established for the purpose of “giving legal assistance to financially disadvantaged persons in the most effective, efficient and economical way” and “giving legal assistance at a reasonable cost to the community and on an equitable basis throughout the State”. In pursuance of these statutory objects, LAQ contributes to government policy processes about any proposals that will impact on the cost –effectiveness of LAQ’s services, either directly, or consequentially through impacts on the efficient functioning of the justice system.

LAQ always seeks to offer policy input that is constructive and based upon the extensive experience of LAQ’s lawyers in the day to day application of laws in the justice system’s courts and tribunals. We believe that this experience provides LAQ with valuable knowledge and insights into the operation of the justice system that may not be available to policy officers within government. LAQ also endeavours to offer alternative options that may enable government to pursue policy objectives in the most effective and efficient way.

Following the cyclone in North Queensland in 2011, LAQ lawyers provided advice and assistance to insurance consumers in relation to claims on their insurance policies for cyclone damage and is therefore in a strong position to provide comment on the Commonwealth Government’s discussion paper about addressing the high cost of home and strata title insurance in North Queensland.

In this submission we comment on the proposal in section three of the discussion paper to increase consumer awareness of the price and features of insurance products by way of an insurance website aggregator.

In LAQ’s experience, the most important feature of insurance products to consumers is price. Irrespective of attempts to increase the awareness of the product features and price, in high risk areas such as North Queensland, vulnerable consumers will be unable to afford insurance because they have to choose between insurance and more essential goods and services such as food, utilities and medical treatment. For any solution or combination of solutions to be successful, they must both reduce the cost of insurance and increase the consumer’s awareness of and access to information about the available products.

LAQ remains concerned that the proposals, while useful, will not reduce the price of insurance in the high risk area of North Queensland other than by possibly compromising the level of coverage.

Insurance website/aggregator and consumer information site comparing price and features

LAQ supports the development of an insurance website/aggregator provided it contains the following features:

1. Coverage of all policies available from all insurers;
2. Comparison of policies and their cost by enabling the user to add and remove features with an explanation of the consequences of removal and addition;
and
3. Indicative or sample prices.

In LAQ's experience, consumers are aware of the existing aggregator websites for health insurance. Anecdotal evidence from clients indicates that the use of these websites is increasing. However, what is not widely understood about existing aggregator websites is that the website does not cover all available products. This leads to many consumers using an aggregator website in the belief that it is helping them get the best priced product for them in the market when in reality it is just the best priced of the products featured on the aggregator website.

For an aggregator website to be effective, it would need to have access to and a comparison of all products available in the market. This complete policy coverage may be easier to achieve for a particular region such as North Queensland rather than a site providing features for all of Australia.

LAQ would support the placement of an insurance aggregator on ASIC's *MoneySmart* website.

Product Features Comparison

The consumers that LAQ assists are often trying to strike a balance between the cost of insurance and ensuring that the product provides enough protection for their property and possessions. As demonstrated by Case Study 1, consumers often have difficulty sourcing products that strike this balance.

Case Study

Mr Y, a pensioner, had for many years been insured by Company X in Northern Queensland. After the floods and despite his property never having been affected by flood, his premium rose from around \$600.00 a year to \$3000.00, which he could not afford.

In not renewing his insurance, he was in breach of his loan obligations and at risk of repossession. The lender also charged a monthly fee of \$50.00 because he had not provided insurance details.

The reason his premium had increased was that according to the new flood maps, his property was at risk of flooding. However, that was inaccurate. He had difficulty communicating with the insurance company concerning the mapping error and sourcing alternative insurance.

LAQ assisted him to source insurance without flood cover with a premium of \$600.00 enabling him to have adequate protection against the risks to his property and meet his obligations under his mortgage contract.

Access to a product features comparison website would have allowed Mr Y to more easily understand his options in terms of coverage under his insurance policy and the effect on the price of adding or removing features and protections from his coverage.

The above case study also demonstrates that lenders sometimes require consumers to purchase insurance with specific product features which might not be necessary to address the level of risk exposure of the particular property. While a comprehensive insurance website/aggregator may assist consumers in obtaining an insurance product that best meets

their needs at a price they can afford, reliance by lenders in developing insurance requirements for mortgage contracts on aggregators that are not sufficiently comprehensive can operate to the detriment of consumers. The consumer is at risk of being required to obtain insurance that makes the loan unaffordable or does not sufficiently cover the risks for their property.

The case study also demonstrates the risk of a website that provides a sample price on the basis of a sum insured and building construction only. An effective aggregator website requires the level of detail in Figure 7 on Page 17 which shows a snapshot from the Private Health Insurance Ombudsman Website.

Live Aggregator Websites

In our submission the effectiveness of live aggregator websites with respect to home insurance is likely to be substantially less than for the car insurance market because home insurance and strata insurance are more complex products with significantly more options available.

In addition to requiring a large investment in technology, a live aggregator website requires a large amount of information to be provided by insurers to the website to facilitate appropriate decisions. To use the live aggregator websites effectively, consumers need a high level of understanding not only of the property, including its structural features, but also the risks that can affect their property.

Strata Title Insurance

LAQ supports the reduction of the complexity of strata title insurance products and the development of cheaper products for smaller, lower risk complexes. Strata title insurance, for the most part, is sourced by experienced body corporate managers using the services of insurance brokers. The main issue in relation to strata title insurance is lack of affordable insurance products rather than lack of understanding of the features of those products. This issue is unlikely to be addressed by an aggregator website for strata title insurance.

Document title
Document subtitle

TRIM no 2014/580838