

30 September 2019

Mr Tim Wong  
Manager Insurance Team  
Financial System Division  
The Treasury  
Langton Crescent  
Parkes ACT 2600

Via email: [addoninsurance@treasury.gov.au](mailto:addoninsurance@treasury.gov.au)

Dear Mr Wong

The Cover-More Group welcomes the opportunity to provide feedback on the Treasury Proposal Paper dated 9 September 2019 concerning reforms to the sale of add-on insurance products.

Cover-More's submission includes a number of attachments containing material which is commercial-in-confidence. Accordingly, we would ask that these attachments be excluded from any version of the submission published by the Treasury.

If you have any queries in relation to this submission, please contact Jane McKeon at [jane.mckeon@covermore.com](mailto:jane.mckeon@covermore.com).

Yours sincerely



Judith Crompton  
Chief Executive Officer  
Asia Pacific

**TRAVEL INSURANCE • MEDICAL ASSISTANCE**

Cover-More Insurance Services Pty Ltd  
ABN 95 003 114 145 AFSL No. 241713  
Level 2, 60 Miller Street, North Sydney NSW 2060 Australia  
Private Bag 913, North Sydney NSW 2059 Australia  
Phone: 1300 72 88 22 Fax: 02 9202 8001  
[enquiries@covermore.com.au](mailto:enquiries@covermore.com.au) [www.covermore.com.au](http://www.covermore.com.au)



**COVER-MORE GROUP RESPONSE  
TO  
TREASURY PROPOSAL PAPER: REFORMS TO THE  
SALE OF ADD-ON INSURANCE PRODUCTS**

**SEPTEMBER 2019**

## **Cover-More Group**

The Cover-More Group (Cover-More) is Australia's leading travel insurance and medical assistance provider, with approximately 40 percent of the market. Cover-More was established in Sydney in 1986 and has since expanded to have a presence in 22 countries serving more than seven million customers, making us the third largest travel insurance provider in the world. In 2017, Cover-More was acquired by Zurich Insurance Group. Our head office remains in Sydney and we employ a global workforce of 2,200 people, with over 800 staff based in Australia.

In 2018, more than four million Australians travelled internationally with a Cover-More travel insurance policy and we provided assistance to over 40,000 travellers who were injured, fell ill or encountered trouble overseas. Cover-More conducts around 400 acute medical interventions and emergency evacuations of Australian travellers each year. Our medical assistance team, which is based in Australia, comprises more than 280 doctors, nurses, psychologists, case managers and support personnel.

Cover-More has a commitment to growth and investment in the Australian market and further expansion of the Cover-More brand globally. Policy settings that foster competition and innovation and encourage the development and uptake of products that provide protection and value to consumers will play an important role in realising these outcomes.

### **Proposed reforms to the sale of add-on insurance**

Cover-More welcomes the opportunity to provide feedback on the proposals outlined in Treasury's Proposal Paper concerning reforms to the sale of add-on insurance products (the Paper). We recognise that the overarching objective of the proposed reforms is to enhance outcomes for consumers, in line with the Government's response to the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) and the Productivity Commission Inquiry into Competition in the Australian Financial System (the Productivity Commission Inquiry).

As the Paper acknowledges, the add-on insurance market in Australia is diverse and complex, with a large range of product lines sold through a variety of distribution channels. In recognition of this, the Paper proposes a tiered approach to the application of a deferred sales model with associated treatment under legislation. This is consistent with the Productivity Commission's assessment that a one-size-fits-all approach would not be optimal for deferred sales models with respect to add-on insurance.<sup>1</sup>

The Paper highlights that the reform proposals are designed to address particular issues that have been identified in add-on insurance markets, namely pressure-selling, poor claims ratios and low levels of consumer engagement. As could be expected given the diversity of products, these issues are not characteristic of all types of add-on insurance.

### **Travel insurance**

Cover-More offers a range of insurance products to Australian consumers covering domestic and international travel for single trips or multiple trips over the course of a 12-month period, with many different levels of cover available.

Single-trip insurance accounts for the vast majority of all policies purchased, which is a key reason travel insurance is by far the largest add-on product by volume sold, as highlighted in

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<sup>1</sup> Productivity Commission Inquiry Report, Competition in the Australian Financial System, June 2018, p430

Chart 1 of the Paper. Insurance for international travel dominates sales of both single-trip and multi-trip policies. Attachment 1 (commercial-in-confidence) provides data summarising Cover-More policies issued in 2018 for international and domestic travel by volume sold, value and trip type.

Cover-More travel insurance products can be purchased directly online or by telephone or indirectly through a wide range of distribution partners, including Flight Centre, Virgin Australia, Medibank, Helloworld, NRMA Insurance, Australia Post and many independent travel agents. It is important to note that in the case of some indirect channels, the purchase of travel insurance does not occur in an add-on context, e.g. sales through Medibank and Australia Post. In the case of other distribution partners, the insurance may be bought in conjunction with the purchase of travel services such as an airline ticket, cruise or holiday package.

We note that insurance sold in a standalone market is outside the scope of the proposed deferred sales model.

In 2018, over two-thirds of Cover-More travel insurance products were sold as add-on insurance. Attachment 2 (commercial-in-confidence) shows the number and value of travel insurance policies sold in the standalone and add-on markets over the past three years. We note that the Productivity Commission Inquiry Report states that around a quarter of travel insurance policies were sold as add-on in 2016.<sup>2</sup> This is not consistent with Cover-More's experience.

Travel insurance has inherent characteristics that set it apart from other add-on insurance products:

- Its benefits to the consumer are not confined to potential events during the period of travel, such as lost baggage or medical expenses, but apply from the point of purchase. If circumstances change in the intervening period, for example if the geopolitical situation becomes unstable or a natural disaster occurs at the destination, or the consumer sustains an injury and is unable to travel, or is no longer in paid employment and elects not to travel, the traveller is covered; and
- The potential claim, for example as a result of a medical event during the period of travel, can be a significant multiple of the value of the primary product purchased; and
- Its coverage extends across a wide range of risk areas and jurisdictions.

It is important to note that travel insurance has not been an area of focus for the Royal Commission, the 2017 Senate Economics References Committee's Inquiry into Australia's general insurance industry, or the 2018 Inquiry into Consumer protection in the banking, insurance and financial sector. In Cover-More's view, this reflects the fact that add-on travel insurance products and the sales practices associated with them are not giving rise to consumer detriment.

On the contrary, we believe travel insurance products offer important consumer protections and exhibit characteristics which meet the criteria for tier three products as detailed in the Paper.

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<sup>2</sup> *ibid.* p429

### Good value for money

The Paper focuses on claims ratios as a measure of product value for consumers, that is, the amount returned to consumers in claims per dollar of premium paid. While the Paper uses claims ratios as a proxy for product value, consumers' assessment of this encompasses a broader range of considerations.

Travel insurance is by its nature service intensive, which contributes to higher associated costs. Medical assistance costs are also relatively high as a consequence of the 24/7 expert medical assistance and repatriation provided as part of the cover. For example, in 2015 Cover-More dispatched a team and charter aircraft to Nepal to evacuate Australians after the devastating earthquakes.

The claims ratios for Cover-More products sold through direct and indirect channels over the past three years are set out in Attachment 3 (commercial-in-confidence). It is evident that the difference between direct and indirect channels is not material.

This stands in contrast to the commentary in the Productivity Commission Inquiry Report, which is based on a newspaper article<sup>3</sup>, and the material presented in Box 1 of the Paper which draws on misleading analysis by CHOICE. Upon purchase of an airfare with Virgin Australia through its website, travel insurance is offered to the consumer with a clear statement that if travel is being undertaken with dependent children or grandchildren under the age of 21, the consumer should telephone to secure a lower rate. This is shown in Attachment 4.

While Cover-More is of the view that travel insurance to cover specific or unusual risks is most appropriately procured directly from an insurer, this is not applicable to the majority of consumers who are seeking more generic products. It is also important to note that add-on distributors such as travel agents offer a wide range of travel insurance products that are customisable according to consumers' planned travel destinations and activities.

It is also apparent that travel insurance represents good value for money for consumers when considering the average price of a premium in the context of the potential magnitude of a claim for a significant event.

### Strong competition

The Productivity Commission Inquiry Report drew attention to the claims acceptance rates of travel insurance relative to other personal insurance products.<sup>4</sup> These rates are linked to the particular characteristics of individual insurance products. Travel insurance covers a wider range of risk areas than many other types of personal insurance products, and is made more complex by the majority of insurable events taking place outside Australia. Caution must therefore be exercised in using claim acceptance rates across personal insurance products as indicators of either competition or value to consumers.

Trends in the pricing of premiums of travel insurance are also not reflective of the level of competition in the sector, as they are significantly affected by foreign exchange movements, as US dollar-denominated medical expenses are a major driver of costs.

Product innovation and consumer focus are key features of competitive markets. Cover-More strives to continually adapt our products to consumers' needs and to provide greater choice. In recent years, consumers have increasingly sought coverage for activities undertaken

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<sup>3</sup> Productivity Commission Inquiry Report, *op. cit.* p429

<sup>4</sup> Productivity Commission Inquiry Report, *op. cit.* p404

overseas such as heliskiing and use of high engine capacity motorcycles, and Cover-More has responded by developing products to meet these travellers' needs.

Further innovation includes the recent development of 'Cancel for Any Reason', a product that provides significant flexibility for travellers.

Cover-More has also been a market leader in terms of expanding the availability of coverage to Australian travellers with respect to mental health conditions, with our efforts being commended by the Victorian Equal Opportunity and Human Rights Commission.<sup>5</sup>

In 2015, Cover-More was the first Australian travel insurance provider to introduce a service that enables Australian travellers overseas to consult by telephone with an Australian-based doctor, instead of engaging with medical authorities overseas where language and cultural barriers may exist. In 2017, Cover-More launched a service that offers travellers a comprehensive telephone consultation with an Australian doctor specialising in travel medicine prior to commencing their trip. Access to services such as this influences consumers' assessment of value for money in relation to travel insurance products.

The advent of travel insurance comparison websites has been a positive development that has both shone a light on competition and assisted in raising awareness of travel insurance coverage and its benefits to consumers. While such websites provide a convenient resource for consumers researching travel insurance products, they focus overwhelmingly on price as the comparator.

It is important to note that a statutory cooling-off period of 14 days applies to the purchase of travel insurance. This safeguard not only ensures that consumers booking travel have immediate access to the benefits of insurance, but also serves to promote competition. Consumers have the opportunity to compare the full range of products available in the market, opt for an alternative if they consider it superior for their needs and receive a full refund on the original product purchased.

#### Well understood by consumers

The risks associated with underinsurance, particularly for international travel, mean it is imperative that consumers understand the value of travel insurance. For this reason, significant and collaborative efforts by government, industry and consumer groups have been directed towards raising awareness of the importance of purchasing travel insurance and doing so at an early opportunity.

This has occurred against a backdrop of unprecedented growth in the frequency of overseas travel by Australians over the past decade, driven by higher disposable incomes and greater competition in travel services' markets. Overseas travel by Australians rose by 85 percent over the ten years to 2019<sup>6</sup>, while the population grew at 15 percent over the same period.<sup>7</sup>

In 2018, CHOICE issued a travel insurance buying guide to assist consumers' understanding of travel insurance.<sup>8</sup> The comprehensive 20-page document discusses a range of information and considerations for consumers in selecting domestic and international travel insurance,

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<sup>5</sup> Victorian Equal Opportunity and Human Rights Commission, Fair minded cover: Investigation into mental health discrimination in travel insurance. June 2019, p122

<sup>6</sup> Tourism Research Australia, National Tourism Forecasts 2019, September 2019, Table A4

<sup>7</sup> Australian Bureau of Statistics, Australian Demographic Statistics – March 2019, September 2019 and Australian Bureau of Statistics, Australian Historical Population Statistics

<sup>8</sup> CHOICE, Travel insurance buying guide, May 2018 <https://www.choice.com.au/travel/money/travel-insurance/buying-guides/insurance>

including how to purchase it, travel insurance connected with credit cards, types of coverage, common policy features, expectations of the insured and requirements to support claims.

Information regarding travel insurance, including a link to the CHOICE guide, features prominently on the Australian Government's Smartraveller website administered by the Department of Foreign Affairs and Trade (DFAT). The Smartraveller website is visited by approximately 50 percent of Australians planning to travel overseas.<sup>9</sup>

In 2016, DFAT and the Insurance Council of Australia (ICA) launched the first of annual surveys of Australians' travel insurance behaviour.<sup>10</sup> The objective of the joint initiative was to uncover consumers' attitudes and knowledge gaps in relation to travel insurance to inform future efforts by government and industry to promote enhanced consumer understanding. The surveys have a particular focus on younger travellers, who tend to have the highest risk of underinsurance. The surveys have assisted in identifying issues that may require a more targeted focus, which can potentially be addressed through the travel insurance content of the ICA's ongoing Understand Insurance awareness campaign.<sup>11 12</sup>

The DFAT-ICA survey conducted in 2018 found that 86 percent of travellers considered at least one risk associated with travelling overseas. Of this group, 76 percent bought travel insurance or checked their policies as a result of considering these risks<sup>13</sup>. This points to a relatively high degree of awareness of travel insurance products and an understanding that different policies offer different benefits. The 2018 survey also found an increased proportion of travellers were confident that they had chosen the best possible policy for their needs compared with 2016.<sup>14</sup> Awareness of the importance of insurance and the consequences of underinsurance has also improved.<sup>15</sup>

While there is always scope to build on consumer understanding in relation to travel insurance products, it is apparent that awareness of its importance is well established and that information concerning its key features and how it can be purchased is widely available.

Travel insurance was one of five markets reviewed as part of the UK Financial Conduct Authority's Market Study of General Insurance add-ons conducted in 2014. In the UK, the proportion of consumers who purchase travel insurance as an add-on product is similar to Australia.<sup>16</sup> The Study found that consumers were reasonably familiar with travel insurance, which likely reflected its relative frequency of purchase compared to other types of add-on insurance.<sup>17</sup> It also found that consumers had good awareness of their ability to purchase travel insurance on a standalone basis, in contrast with products such as GAP insurance for motor vehicles.<sup>18</sup>

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<sup>9</sup> Quantum Market Research, Survey of Australians' Travel Insurance Behaviour – 2018, July 2018, p27; Survey of Australians' Travel Insurance Behaviour – 2017, June 2017, p22; Survey of Australians' Travel Insurance Behaviour – 2016, August 2016, p34

<sup>10</sup> <http://understandinsurance.com.au/launch-of-the-joint-understand-insurance-smartraveller-travel-insurance-campaign-in-canberra>

<sup>11</sup> <http://understandinsurance.com.au/types-of-insurance/travel-insurance>

<sup>12</sup> <http://understandinsurance.com.au/young-travellers-and-insurance>

<sup>13</sup> Quantum Market Research, *op. cit.* July 2018, p16

<sup>14</sup> *ibid.* p35 and Quantum Market Research *op. cit.* 2016, p32

<sup>15</sup> Quantum Market Research, *op. cit.* 2017, p16

<sup>16</sup> Financial Conduct Authority, General insurance add-ons market study: Provisional findings and proposed remedies, March 2014, p22

<sup>17</sup> *ibid.* p8

<sup>18</sup> *ibid.* p25

## High risk of underinsurance

The efforts outlined above to enhance consumers' understanding of travel insurance are closely linked to the high risks associated with underinsurance, particularly for international trips.

CHOICE states in its travel insurance buying guide that:

*"If you can't afford cover, you can't afford to travel."*<sup>19</sup>

On the question of when to purchase travel insurance, CHOICE recommends:

*"Right away. Buy travel insurance as soon as you know your travel dates. That way you're covered if your trip gets cancelled before you even leave or if you are unable to travel at all. It won't cost you more, as you'll only pay for the dates that you're travelling."*<sup>20</sup>

This advice underscores both the accessibility of travel insurance for consumers and its unique characteristics.

Given the immediate benefits accruing to the consumer, it is in their interests to purchase insurance at the earliest opportunity to minimise their risk to potential financial losses. Attachment 5 (commercial-in-confidence) contains data for the number and value of total and relatively large claims paid by Cover-More over the past three years. In 2018 over 500 claims with an average value of around \$60,000 were paid – an amount that would be financially devastating for many Australians if required to cover these costs.

It is the case, however, that approximately 10 percent of Australians travel overseas without insurance.<sup>21</sup> While a proportion of travellers do so knowingly, the most common reason cited for non-insurance is "I just didn't think about it."<sup>22</sup> While this confirms there is further work to do in enhancing consumer awareness, it clearly demonstrates that pressure-selling tactics are not prevalent in the sale of add-on travel insurance.

In fact, distribution partners have an important and longstanding role in information dissemination and education. While many Australians purchase domestic travel online, over 70 percent travelling internationally book at least one part of their trip through an Australian travel agent.<sup>23</sup> Younger travellers, who have the highest risk of underinsurance, are more likely to purchase insurance through travel agents than direct with insurers.<sup>24</sup> The Australian Federation of Travel Agents (AFTA) is the industry chair of the Smartraveller Consultative Group, whose membership also includes airlines, reflecting the status of these entities as key partners in supporting the welfare of Australians travelling overseas.

For consumers buying travel with a short window before departure (often online), an enforced pause before the purchase of travel insurance is not only highly inconvenient, but also risks underinsurance. While the majority of such travel would likely be domestic and therefore not expose consumers to extreme levels of risk, the potential consumer detriment arising from underinsurance for last minute or emergency overseas travel as a result of uncoupling the travel insurance transaction from the primary purchase is high.

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<sup>19</sup> CHOICE, *op. cit.* p4

<sup>20</sup> *ibid*

<sup>21</sup> Quantum Market Research, *op. cit.* 2018, p22; 2017, p9

<sup>22</sup> Quantum Market Research, *op. cit.* 2018, p24

<sup>23</sup> <http://www.afta.com.au/travel-trends>

<sup>24</sup> Quantum Market Research, *op. cit.* 2016, p23



Underinsurance of Australians travelling internationally has consequences beyond the impact on the individual consumer, most notably pressure on Australia's consular services overseas. This is a factor in ongoing government efforts to enhance awareness and uptake of travel insurance by Australians. The survey initiative noted above was launched concurrently with the Government's Consular State of Play report and public consultation for its Consular Strategy for 2017-19. The then Minister for Foreign Affairs, the Hon Julie Bishop MP, noted the limitations on the ability of Australia's consular network to provide assistance to overseas travellers and the importance of them taking out travel insurance, highlighting the Government's use of the ABC reality television program "Embassy", featuring staff in Australia's busiest embassies dealing with Australians requiring diplomatic assistance, as a vehicle to promote this.<sup>25</sup>

### **Summary**

Based on the information set out above and attached, Cover-More is of the view that:

- travel insurance offers vital protections and it is in consumers' interests that early and convenient access to these products is facilitated;
- information in relation to travel insurance products is widely available to consumers and this has been assisted by collaborative efforts between government, industry and consumer groups;
- distribution partners are neither employing pressure-selling tactics nor offering poor value products, and are fulfilling an important role in ensuring that Australian travellers are protected;
- uncoupling the option to purchase travel insurance concurrently with the primary product will cause inconvenience to consumers booking travel and expose a significant number of travellers to a greater risk of underinsurance.

As demonstrated above, add-on travel insurance exhibits characteristics consistent with tier three products. Against this background, Cover-More submits that these products are suitable for an exemption from the proposed deferred sales model.

As highlighted above, the statutory cooling-off period enables consumers to 'shop around', while ensuring they do not risk underinsurance. Cover-More suggests there may be merit in renewed government and industry efforts to reinforce consumer awareness of this mechanism for tier three products.

### **Related issues**

Cover-More notes that the Government's implementation plan for the package of reforms arising from the Royal Commission includes legislation in relation to the hawking of insurance products (recommendation 4.1).

ASIC regulatory guidance makes clear that a travel agent offering insurance in conjunction with the sale of travel services does not constitute hawking, noting the particular circumstances of the travel industry.<sup>26</sup> This recognises both the appropriateness of travel insurance being sold as an add-on product and that it is not considered prone to the use of unfair sales tactics.

More broadly, it is critical that any changes to the hawking provisions do not inadvertently hamper the operation of the proposed tiered model for the sale of add-on insurance, irrespective of the tier to which individual insurance products are assigned.

<sup>25</sup> [https://foreignminister.gov.au/speeches/Pages/2016/jb\\_sp\\_161019.aspx?w=tb1CaGpkPX%2FIS0K%2Bg9ZKEq%3D%3D](https://foreignminister.gov.au/speeches/Pages/2016/jb_sp_161019.aspx?w=tb1CaGpkPX%2FIS0K%2Bg9ZKEq%3D%3D)

<sup>26</sup> Australian Securities and Investments Commission, Regulatory guide 38: The hawking provisions, May 2005, p11