

**Cover Genius Pty Ltd ABN 43 159 983 598
AFSL 490058**

**Response to 'Reforms to the sale of add-on insurance products'
(proposal paper dated 9 September 2019)**

Cover Genius Background:

Cover Genius is an Australian insurance technology (insurtech) firm that distributes insurance products globally through its technology platform. Founded in 2012, Cover Genius has become a leading global insurtech and has received many awards as an insurance industry disruptor. We work with multiple underwriters around the world and in Australia to develop and distribute insurance policies for consumers where there is a need and a lack of adequate coverage.

**Response: Exemption for Product Insurance (personal single item)
Products sold as an add-on should reside in tier 3**

Cover Genius maintains that Product Insurance should reside in tier 3 and be exempted from the proposed deferred sales model (DSM).

For clarity, we define "Product" insurance as the coverage of single item products such as phones, tablets and household appliances.

We also believe that add-on insurance sold in digital channels should be considered separately from face-to-face add-on insurance products sold in offline channels. Digital channels provide consumers with the ability to consider their purchase and shop around, present a lower pressure environment, and are easier to regulate (e.g. through prescriptive disclosures that can be easily monitored).

We believe that the benefits of being able to purchase add-on Product Insurance outweigh the benefits of deferring the purchase and that this product meets the criteria for an exemption for the following reasons:

1. Product Insurance (Personal Single Item) products do not meet the tier one significant consumer threshold.

There is no evidence that these insurance products, sold via add-on digital distribution channels, have either very low loss ratios (as stated above we are targeting a loss ratio of

50%) or are characterised by unfair sales practices (digital channel does not present the same pressurised sales opportunities as face to face).

2. Risk of underinsurance if a DSM is adopted

Given Product Insurance is not a compulsory product, there is a significant risk that removing the ability to conveniently purchase insurance at the point of sale in a single transaction will lead many consumers to ignore insurable risks and go uninsured due to lack of engagement.

If a DSM is introduced, consumers will likely be offered extended warranty products as an alternative. These products, which are outside DSM proposal because they are not insurance products, often offer poor consumer value. Given the limited level of coverage (excludes theft or accidental damage), consumers will remain significantly under-insured if they only purchase these warranty products:

One example of poor practice in the warranty space is ASIC's proceedings against major retailer Fisher & Paykel for providing information to consumers regarding warranty products which mislead consumers on the coverage which was already provided under the Australian Consumer Law (ACL).¹

If extended warranty products are the only alternative presented to consumers at the point of sale, they are more likely to be adopted, thus resulting in significantly worse consumer outcomes.

3. Digital add-on products offer significant value to consumers

Working loss ratio:

Policies such as Cover Genius' Product Insurance has been designed to offer significant value to consumers with a target loss ratio of 50%

Wider coverage:

Policies such as Cover Genius' Product Insurance, sold as an optional add-on, offers wider coverage than traditional warranty products. Over the counter warranty products have limited value, particularly given products are automatically covered by manufacturer warranty under the Australian Consumer Law, and are traditionally sold on a multi-year basis. This locks consumers into long-term in products that potentially does not serve them value (particular if item is sold or no longer in use after 1 year).

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<https://www.accc.gov.au/media-release/fisher-paykel-and-domestic-general-to-each-pay-200000-for-false-or-misleading-extended-warranty-representations-0>

Cover Genius' Product Insurance policy not only offers accidental damage and theft protection, but also provides additional warranty cover, thus offering better coverage for consumers. Furthermore, they are sold on an annual basis, which, unlike multi-year policies, gives consumers the ability to re-assess their needs at more regular intervals.

Consumers have more time to determine product suitability:

Offering insurance products in a digital environment, unlike face-to-face, enables consumers to understand the benefits and drawbacks of the product, compare different market offerings, and determine if coverage and the specific product offered is appropriate.

Convenience:

Add-on insurance sold via digital channels offers consumers the convenience of being able to buy insurance at the point of sale and therefore increases the value for the consumer:

Consumers heavily value convenience when purchasing insurance products. If they do not have the ability to immediately bind insurance cover at the time of purchase of the underlying asset, they will likely either buy an extended warranty product (as noted above) or go uninsured.

4. Well understood product

Product Insurance is fairly simple in nature, as it covers consumers primarily against accidental damage and theft. These perils are generally easier for consumers to understand and make an informed decision as to whether coverage is appropriate for them.

5. High competition and ability for consumers to shop around

There are a number of market offerings to consumers for this insurance line. Thus, consumers have the ability to shop around for alternative coverage during their cooling off period should they wish to do so under an add-on insurance sale scenario.

There are alternative options that regulators can take to ensure positive consumer outcomes

Regulators can impose that insurance distributors send reminders to consumers of their statutory right to a cooling off period. This will ensure consumers remember they have a period post-sale where they can consider whether or not the purchase is adequate and/or shop around for competitive products. This should be coupled with easy ability for consumers to cancel their policies.

Prescriptive disclosures can also be made to consumers when buying a policy to avoid 'pressured sales.' Disclosures can include links to external consumer awareness websites, such as ASIC Money Smart, to enable consumers to make informed decisions around their purchase.

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**Response to 'Reforms to the sale of add-on insurance products'
(proposal paper dated 9 September 2019)**

Cover Genius Background:

Cover Genius is an Australian insurance technology (insurtech) firm that distributes insurance products globally through its technology platform. Founded in 2012, Cover Genius has become a leading global insurtech and has received many awards as an insurance industry disruptor. We work with multiple underwriters around the world and in Australia to develop and distribute insurance policies for consumers where there is a need and a lack of adequate coverage.

Response to Feedback Question 1: Parcel Insurance (single item goods in transit) products sold as an add-on should reside in tier 3

Cover Genius maintains that Parcel Insurance should reside in tier 3 and be exempted from the proposed deferred sales model (DSM).

We believe that the benefits of being able to purchase add-on Parcel Insurance outweigh the benefits of deferring the purchase and that this product meets the criteria for an exemption for the following reasons:

For clarity, we define "Parcel" insurance as the coverage of single item goods in transit (including by road, sea and air). These products are most often purchased by merchants (small business owners), however we will refer to all potential insureds as consumers for simplicity.

- 1. Parcel Insurance products do not meet the tier one significant consumer threshold.**
- 2. There is a very high probability of under-insurance under a deferred sales model (DSM)**
- 3. Parcel Insurance offers significant value to consumers**
- 4. Parcel Insurance is simple in nature and thus easy for consumers to understand and evaluate appropriateness of cover**

Response to Feedback Question 2: The trigger event needs to operate in consideration of primary products purchased for use within the deferral period

We believe that the Government will need to clarify the operation of the trigger event and the 4 day 'shop-around' period in circumstances where a consumer purchases a primary product for use within the 4 day period.

Further feedback and suggestions

We also believe there are alternative options that regulators can take to ensure positive consumer outcomes.

Response to Feedback Question 1: Parcel Insurance (single item goods in transit) products sold as an add-on should reside in tier 3

1. Parcel Insurance products do not meet the tier one significant consumer threshold.

There is no evidence of significant consumer detriment from Parcel insurance sales sold as an add-on product.

Given the short-term nature of these products and the likely frequent purchases by consumers, if the product was very low-value add, one would expect to see very low take up rate.

Furthermore, these products are generally sold for a low absolute monetary value, thus unlikely that they would cause systemic consumer detriment.

2. There is a high risk of under-insurance under a deferred sales model (DSM)

Due to the nature of the sales journey for purchasing the underlying product/service (shipping a parcel), a consumer has no real alternative to buy insurance protection for their shipped parcels than during the point of sale (add-on insurance).

Optional in-path sales offerings for Parcel Insurance is essential for consumers as they are effectively at risk soon after they purchase the primary product (arrange delivery). This is because items are usually 'shipped' immediately after delivery is arranged.

The Parcel Insurance digital distribution market (add-on product sold at point of sale of shipment order) provides the opportunity for consumers to arrange their insurance at the time of shipment. This policy type offers immediate peace of mind as coverage is instantly applied from the date of collection and ends upon delivery to the recipient address.

Should this insurance product be subjected to a deferred sales model, consumers will be negatively impacted. This model could lead to a high risk of underinsurance as it will result in a gap between a consumer's ability to purchase coverage and their delivery (and thus risk) commencing.

Furthermore, given the short-term nature of product, a deferral would effectively make the insurance product devoid of any value.

While consumers can secure Parcel Insurance on stand-alone websites, this is a cumbersome process, and rarely practical for consumers who are sending multiple parcels per day (which is the majority of consumers - small business owners - who are likely to purchase this policy).

3. Parcel Insurance offers value to consumers

Need for insurance:

Choice magazine have confirmed that "14% of consumers have experienced a missing parcel or failure to deliver an item through Australia's main parcel delivery service, Australia Post"⁴.

Convenience:

Small business owners and merchants often arrange multiple shipment orders per day. The ability to seamlessly 'add' insurance protection to desired shipments is an essential time-saving ability. Digital platforms, such as Cover Genius', enable these seamless purchases, by capturing all the relevant shipping details need to quote a policy from the shipment provider, thus reducing the need for small business owners, merchants and individuals to fill in lengthy forms.

This convenience is a critical factor in insurance adoption. Removing the ability to seamlessly buy insurance will likely lead to significant underinsurance.

4. Parcel Insurance is simple in nature and thus easy for consumers/merchants to understand and evaluate appropriateness of cover

Parcel Insurance products offered as an optional add-on are simple and easy to understand. The covered perils include loss, theft and accidental damage to single items whilst in transit, for parcels insured for an average of approximately AUD 125.00.

⁴<https://www.choice.com.au/shopping/shopping-for-services/services/articles/parcel-delivery-and-postal-issues>

Furthermore, the technology involved in the integration of 'in-path' insurance offerings means that consumers are not worrying about what is and is not covered. Once consumers/merchants input parcel information (to purchase shipping services), an insurance policy is automatically quoted that covers items up to their actual declared value. Any items that are excluded under the insurance policy terms are automatically not quoted for.

Response to Feedback Question 2: The trigger event needs to operate in consideration of primary products purchased for use within the deferral period

The government will need to clarify the operation of the trigger event and the 4 day 'shop-around' period in circumstances where a consumer purchases a primary product for use within the 4 day period e.g. a consumer purchases delivery of a parcel for the same day, and selects to purchase an add-on insurance product for parcel protection at the point of sale. The delivery is made within 24 hours. In that circumstance it appears, based on the current proposed definition of a trigger event and the 'shop-around' period, that the consumer will be unable to be offered an add-on product and be underinsured.

In these circumstances, we would suggest that the deferral period should end, before the insured event occurs e.g. in the above circumstance, the deferral period would end when the delivery commences, which in most circumstances, would be immediately, and therefore the DSM would not apply to this product line.

Further feedback and suggestions: There are other measures that regulators can take to protect consumer outcomes

We ask that the Government clarify that the definition of 'transit insurance' does not include parcel insurance products as per our definition above.

Prescriptive disclosures made to consumers when buying a policy can be mandated to avoid 'pressured sales.' Regulators can also impose requirements to have links to external consumer awareness websites, such as ASIC Money Smart, to enable consumers to make informed decisions around their purchase.

Parcel Insurance should be exempted from a deferred sales model

Due to the nature of the consumer's sales journey for purchasing the underlying product/service (shipping a parcel), a consumer has limited practical alternatives to buy single item transit insurance than during the point of sale. For this reason, and those outlined above, we believe that Parcel Insurance should be placed in the third tier and exempted from a deferred sales model.

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**Response to ‘Reforms to the sale of add-on insurance products’
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**Response to Feedback Question 1: Travel Insurance products sold
as an add-on should reside in tier 3**

Cover Genius maintains that Travel Insurance products should reside in tier 3 and be exempted from the proposed deferred sales model (DSM).

For clarity, we define “Travel” insurance as a policy purchased for consumer protection from certain liabilities that can occur related to travelling. These losses can include trip cancellation costs, medical bills for illness suffered by consumers away from home, or damage to personal possessions.

We believe Travel Insurance meets the criteria for an exemption for the following reasons:

- 1. Travel Insurance Products do not meet the tier one significant consumer threshold;**
- 2. The benefits of being able to purchase add-on insurance immediately out-weigh the benefits of deferring the purchase, and increase the value of the product.**
- 3. There is strong competition in the market.**
- 4. If this add-on insurance is not placed in tier 3, then the consumer will face under-insurance issues.**
- 5. Travel insurance is a well understood product by customers.**

Response to Feedback Question 2: The trigger event needs to operate in consideration of primary products purchased for use within the deferral period

We believe that the Government will need to clarify the operation of the trigger event and the 4 day 'shop-around' period in circumstances where a consumer purchases a primary product for use within the 4 day period.

Further feedback and suggestions

We also believe there are alternative options that regulators can take to ensure positive consumer outcomes.

Response to Feedback Question 1: Travel Insurance products sold as an add-on should reside in tier 3

1. Travel Insurance Products do not meet the tier one significant consumer threshold;

There is no evidence that these insurance products sold via add-on digital distribution channels have either very low loss ratios (typical loss ratios in for retail travel insurance sector in Australia range between 30-50% - including for add-on channels) or are characterised by unfair sales practices (digital channel does not present the same pressurised sales opportunities as face to face).

2. The benefits of being able to purchase add-on insurance immediately out-weigh the benefits of deferring the purchase, and increase the value of the product.

Offering travel insurance products at the time of the sale of the travel booking, means that the digital distribution platforms (such as those offered by Cover Genius) are able to dynamically alter the price or product, depending on the risk to better suit customer's specific needs and circumstances. This is possible without asking the customer lengthy question sets, something we know leads to customer disengagement and cart abandonment, as digital distribution platforms are able to automatically pull relevant information from the underlying travel booking.

Some examples include;

Cancellation: If customers buy flights last minute, the risk of trip cancellation before departure is lower, therefore a lower premium can be applied, increasing the value for the consumer. Automatically calculating how far in advance the booking is made allows digital platforms to offer my tailored pricing.

Domestic travel: Medical cover would not be offered for a consumer who is a resident of Australia travelling to another location in Australia, as this is a benefit that is not needed.

However, they may wish to have cancellation and/or personal possessions insurance. Being able to unbundle the travel insurance policy and sell only relevant coverage based on consumer's needs is a key differentiator of new digital distribution platforms. As consumers very often aren't aware of their needs, being able to pull from underlying travel details enables companies to both educate customers and tailor specific policies.

The ability to purchase insurance as an add-on not only adds significant level of convenience for consumers (something highly valued), but allows digital distribution platforms, such as Cover Genius, to be able to smartly use technology to understand the nature of underlying travel and as a result create more relevant policies at a more accurate price for consumers.

3. There is strong competition in the market

Travel insurance is a highly competitive market, with Choice reviewing 137 products on the market in Australia alone.¹

There is abundant competition for travel insurance products, and the customers have a wide variety of choices available to them from a variety of channels, including stand-alone websites, 'add-on' products distributed on airlines and online travel agents, and credit cards.

There are also a large number of consumer advocacy websites and forums that give consumers a strong ability to properly evaluate suitability and compare products.

4. There is a higher risk of under-insurance issues if a DSM is adopted

The ability to purchase insurance at the same time as booking the underlying travel (add-on insurance) gives consumers the convenience to secure protection in a quick and seamless manner. Given the strong preference consumers show for convenience in insurance, there is a much higher risk that some consumers will 'ignore' or 'forget' their need for insurance if it is not offered to them in a seamless manner.

Consumers are also at risk under a DSM of not being able to secure insurance in time. The emergence of last-minute bookings, particularly made popular by last minute booking travel agencies and aggregators, where consumers purchase their holiday only days (if not less) in advance of travelling, means that a DSM will likely lead to much higher rates of underinsurance for these consumers.

With regard to cancellation insurance, one of the most commonly claimed-upon benefits of travel insurance, consumer will risk underinsurance if a DSM is adopted. Given cancellation insurance protects consumers before they travel (as soon as they purchase the insurance), being able to purchase insurance as far in advance as possible gives consumers more utility and better coverage.

¹ Travel insurance reviews - single trip, CHOICE 4 January 2019
<https://www.choice.com.au/travel/money/travel-insurance/review-and-compare/travel-insurance>

5. Travel insurance is a well understood product by customers

The Australian travel insurance is a very large market. It is the largest category of add-on insurance sold in Australia, and as discussed above, is categorised by very strong competition and a large number of product offerings in the market.

This suggests most Australian consumers are familiar with the need for travel insurance, and understand its proposed benefits. This is further supported by the large number of consumer advocacy websites and forums which give consumers the ability to properly evaluate suitability and compare products.

Of course travel insurance products will vary in suitability and value, as with all consumer products, there is no reason to believe that consumers do not have the resources and capability to properly evaluate the suitability of any particular product (whether sold as an add-on or stand-alone) and make an informed decision.

Response to Feedback Question 2: The trigger event needs to operate in consideration of primary products purchased for use within the deferral period

The government will need to clarify the operation of the trigger event and the 4 day 'shop-around' period in circumstances where a consumer purchases a primary product for use within the 4 day period e.g. a consumer purchases an airline ticket from Sydney to Auckland the day prior to travel and purchases an add-on insurance product for that trip. The consumer completes that trip within 2 days and returns to Sydney. In that circumstance it appears, based on the current proposed definition of a trigger event and the 'shop-around' period, that the consumer will be unable to be offered an add-on product and be underinsured.

In these circumstances, we would suggest that the deferral period should end, before the insured event occurs e.g. in the above circumstance, the deferral period would end when the consumer commences the travel.

Further feedback and suggestions: There are other measures that regulators can take to protect customer outcomes

There are other measures that regulators can take to ensure insurance products across all channels are delivering value to customers, rather than just targeting add-on channels and effectively transmitting the problems to another distribution platform.

Other measures apart from a deferred sales model are better equipped to handle concerns raised by the royal commission for this product line.

One such measure is increasing consumer awareness of their cooling off period. One way regulators could do this would be to require an email follow up (post purchase online) which clearly outlines to customers their right to a cooling off period, which gives them a window to consider whether or not the purchase is adequate and/or shop around for competitive products. This should be coupled with easy ability for customers to cancel their policies.

Another measure could be to mandate prescriptive disclosures to customers when buying a policy online to avoid 'pressured' sales. Such disclosures could include links to external consumer awareness websites, such as ASIC Money Smart, to enable customers to make informed decisions around their purchase.

Face-to-face travel agency sales of Travel insurance products expose customers to issues of pressure selling with no documented detail of the methods used to make the sale, nor the customers' understanding of the product. In contrast, it must be considered that the digital distribution of add-on travel insurance products, provides the opportunity for consumers to fully understand the product in which they are purchasing, with the ability to shop around, and the requirement to opt-in to do so, which consumers do not have when face-to-face sales over the counter at travel agencies are taking place. The digital distribution platform in which Cover Genius operate must be considered a more beneficial option to consumers, even if only to better understand the product on offer.

Finally, if measures such as target loss ratios are adopted to ensure customer value, these should apply at the product level, not at the sales channel level.

Travel Insurance should be exempted from a deferred sales model

For the reasons outlined above, we believe that travel insurance should be placed in the third tier and exempted from a deferred sales approach.

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Cover Genius is an Australian insurance technology (insurtech) firm that distributes insurance products globally through its technology platform. Founded in 2012, Cover Genius has become a leading global insurtech and has received many awards as an insurance industry disruptor. We work with multiple underwriters around the world and in Australia to develop and distribute insurance policies for consumers where there is a need and a lack of adequate coverage.

Cover Genius is one of the largest Australian (and global) distributors of Rental Vehicle Excess Insurance products (RVE Products¹). We originally developed these products in response to an industry-wide concern around vehicle rental excess waivers sold by car rental companies. Bodies such as the ACCC and consumer-focused groups such as Choice Magazine frequently highlighted concerns around excessive prices, inadequacies of waiver products, aggressive sales tactics and a lack of consumer protection (see details in Response). These practices are in line with some of the worst findings of the Royal Commission surrounding the sale of GAP insurance.

The emergence of online travel agencies (such as car rental aggregators) and the ability to purchase add-on RVE Products at the point of sale (distributed by companies such as Cover Genius), has been critical in introducing competitive offerings with higher consumer value and opening up new distribution channels for consumers to purchase protection associated with rental vehicles. Add-on insurance sold via these digital channels has especially been critical in offering consumers meaningful choice compared to over-the-counter products from vehicle rental companies due to the high value consumers place on convenience of purchase.

We thus strongly recommend that RVE Products, which currently bring significant levels of competition and value to consumers, are not subject to a deferred model. This would ironically only push many consumers back into rental vehicle companies’ ‘over the counter’ exclusive dealing channel.

¹ For the purpose of this response, we define RVE Products as insurance products sold to consumers to protect against excess liability not automatically covered under vehicle rental agreements. We distinguish these from ‘waiver products’ that sold by vehicle rental companies, which although similar in purpose, vary significantly in practice.

Response to Feedback Question 1: Rental Vehicle Excess Insurance products sold as an add-on should reside in tier 3

Cover Genius maintains that Rental Vehicle Excess Insurance products (RVE Products) should reside in tier 3 and be exempted from the proposed deferred sales model (DSM).

For clarity, we define RVE Products as insurance products sold to consumers to protect against excess liability not automatically covered under vehicle rental agreements. We distinguish these from 'waiver products' that are sold by the vehicle rental companies themselves, which although similar in purpose, vary significantly in consumer outcomes.

We believe that the benefits of being able to purchase add-on RVE Products outweigh any benefits of deferring the purchase and that this product meets the criteria for an exemption for the following reasons:

1. RVE Products do not meet the tier one significant consumer threshold

- There is no evidence that RVE Products create significant consumer detriment or exhibit widespread unfair sales practices

2. There is a high risk of underinsurance and/or a funnelling of consumers to poor-value waiver products if a deferred sales model is adopted

- A DSM will likely funnel more consumers into buying excess waiver products sold over-the-counter by vehicle rental companies (see below for details)
- These over the counter products not only have been shown to represent poor value for money and exhibit unfair sales practices, but, given their poor level of coverage, will leave consumers partially underinsured from key risks²
- Although many RVE products are available for consumers to choose from, given the value consumers place on convenience for this product line, being able to sell at the point of sale (add-on) is critical to consumer adoption and avoiding consumers being funnelled into the 'exclusive dealing,' over-the-counter channels

3. RVE Products (as opposed to over-the-counter excess waiver products sold by rental companies) have historically shown good value to consumers

- Consumers are exposed to significant financial liabilities when renting a vehicle (damage to the vehicle and third parties) and so the value of having protection is both well understood and clear
- RVE Products have historically been of much better value to consumers than over-the-counter waiver products due to lower costs and wider coverage (see below for details)³

² See Appendix 1

³ See Appendix 1

4. There is strong competition in the market for RVE Products

- There is strong competition in the market of RVE Products and more so now due to the emergence of add-on insurance options (see below for details)

5. This product is well understood by consumers

- Vehicle rental excess protection products are a common purchase and their *proposed* benefits and value to consumers are generally well understood. Consumers are also increasingly aware of the relatively poor value of over-the-counter waiver products sold by car rental companies relative to stand-alone insurance products (RVE Products) (see below for details)

Response to Feedback Question 2: The trigger event needs to operate in consideration of primary products purchased for use within the deferral period

We believe that the Government will need to clarify the operation of the trigger event and the 4 day 'shop-around' period in circumstances where a consumer purchases a primary product for use within the 4 day period.

Further feedback and suggestions

We also believe there are alternative options that regulators can take to ensure positive consumer outcomes.

Response to Feedback Question 1: Rental Vehicle Excess Insurance products sold as an add-on should reside in tier 3

1. There is no evidence that RVE Products create significant consumer detriment or exhibit widespread unfair sales practices

Choice magazine has highlighted many of the benefits of RVE Products as opposed to 'cover the counter' excess waiver products sold by vehicle rental companies: "*There are better ways to reduce your excess liability than succumbing to the pressure-sale tactics at the car hire counter. Many alternative insurance products are cheaper and often have fewer exclusions. While car hire companies can charge anywhere from around \$20 to nearly \$45 per day to reduce your standard liability, standalone alternatives can cost as little as \$10 per day.*"⁴

⁴ <https://www.choice.com.au/travel/on-holidays/car-hire/articles/car-hire-excess-and-hidden-fees>

Add-on insurance products such as Cover Genius' 'vehicle rental excess insurance product' (sold via RentalCars.com) demonstrably offer significantly better value to consumers than car rental company products in terms of coverage and price.⁵

There is also no evidence of unfair sales practices from RVE products sold digitally, with digital sales channels being largely immune from typical face-to-face pressurised sales techniques.

2. There is a high risk of underinsurance if a deferred sales model is adopted

There is a high risk of underinsurance and a funneling of consumers to buy poor-value products 'over-the-counter' if a deferred sales model is adopted.

Although decreasing, a majority of vehicle rental protection products are sold over-the-counter as excess waivers by car rental companies, as opposed to stand-alone insurance products (RVE Products). This over-the-counter waiver channel has been frequently found to be characterised by unfair sales practices and poor value products.⁶ Any changes to the current competitive landscape will likely reverse the trend away from this channel.

There are a large number of RVE Products and providers in the market offering more comprehensive products at significantly lower rates than those offered by vehicle rental companies.⁷ However, a majority of consumers still purchase waiver products sold over-the-counter.

This anomaly highlights that consumers highly value convenience (ease of purchase) with regard to this product. Convenience is particularly valued as this product is a low ranking cost in any travel budget. A DSM would remove this convenience and make it less likely that consumers will find a viable time to purchase protection before reaching the counter to collect their rental vehicle. Removing the ability for consumers to immediately purchase RVE Products as an add-on product online is unlikely to lead to better consumer engagement with the product and 'shopping around,' but rather only lead to even more consumers buying products (last minute) over-the-counter.

⁵ Car Hire Insurance Rort - Choice 8 Jan 2015.

<https://www.choice.com.au/about-us/media-releases/2015/january/car-hire-insurance-rort>

⁶ Examples include; *Australian Competition and Consumer Commission v CLA Trading Pty Ltd [2016] FCA 377*; ACCC's action against Europcar for Alleged unfair contract terms and misleading conduct -

<https://www.accc.gov.au/media-release/accc-takes-action-against-europcar-for-alleged-unfair-contract-terms-and-misleading-conduct>;

<https://www.choice.com.au/travel/on-holidays/car-hire/articles/car-hire-excess-and-hidden-fees>

⁷<https://www.choice.com.au/travel/on-holidays/car-hire/articles/accessible-text-files/car-hire-excess-products-within-australia>

Given the poorer product coverage associated with these waiver products, not only are consumers worse off financially by being funnelled into this channel, they are also more underinsured relative to if they purchased RVE Products.

Note: if over the counter sales of vehicle rental waiver products (equivalent to insurance but not subject to Royal Commission regulation since it is not an insurance product) are also subject to a deferred sales model, then consumers will very likely be uninsured and exposed to significant financial liabilities (claims can reach the tens of thousands) given they are 'at risk' once they pick up the rental vehicle. Furthermore, Australian regulators are unable to regulate against car rental companies in foreign countries, thus putting Australian residents at risk of being forced to buy lower-value products and/or risk being uninsured when travelling.

3. Good value

Consumers are exposed to significant financial liabilities when renting a vehicle and so the value of having protection should both be well understood and clear.

RVE Products have historically been of much better value to consumers both in terms of cost and coverage.⁸ In fact, independent review agencies such as Choice magazine consistently recommend consumers look to RVE Products rather than the over the counter products.⁹

Companies such as Cover Genius (and our insurance partners) offer add-on products that are of significantly higher value to consumers and lower priced than what currently exist on direct websites and over-the-counter offers from rental car agencies.

Given the importance consumers place on convenience for this product line, being able to seamlessly offer RVE Products as an add-on at the point of sale of the rental vehicle is a significant value add to consumers.

4. Strong competition

Choice magazine did a comparison of the Car hire excess products within Australia showing the wide variety of products available through both standalone RVE products, and products sold through rental car companies directly.¹⁰

⁸ Car Hire Insurance Rort - Choice 8 Jan 2015.

<https://www.choice.com.au/about-us/media-releases/2015/january/car-hire-insurance-rort>

Car hire excess products within Australia

<https://www.choice.com.au/travel/on-holidays/car-hire/articles/accessible-text-files/car-hire-excess-products-within-australia>

⁹ Car hire excess and hidden fees 18/06/2018

<https://www.choice.com.au/travel/on-holidays/car-hire/articles/car-hire-excess-and-hidden-fees>

¹⁰ Car hire excess products within Australia

<https://www.choice.com.au/travel/on-holidays/car-hire/articles/accessible-text-files/car-hire-excess-products-within-australia>

Given the majority of consumers still purchase protection over-the-counter from rental car companies directly, convenience is clearly a key purchasing decision factor. Removing the ability of consumers to immediately buy RVE products at the point of sale from online travel agency websites will significantly decrease actual competition in the market.

A DSM model would also increase barriers to entry for smaller firms as would only increase market share of both rental vehicle companies (selling waiver products over the counter) and large insurance companies which can outcompete on paid marketing.

5. Well understood product

Cover Genius provides insurance products which require clear and concise Product Disclosure Statements (PDS) for consumers. These products also have a regulated dispute resolution process for retail consumers, whereas traditional waiver products (sold by Rental Car Companies over the counter) are not regulated to provide clear concise statements to consumers about the product, nor have a dispute resolution process in the case of any issues. This product is well understood by consumers, however there are supported PDS documents and dispute processes to assist consumers should there be any issues.

Vehicle rental excess protection products are a common purchase and their proposed benefits are well understood. Consumers are also increasingly aware of the relatively poor value of over-the-counter waiver products sold by car rental companies relative to the RVE Products sold prior to rental pick-up (most commonly sold by online travel agencies) by companies like Cover Genius and their affiliate insurers, as a result of independent review agencies such as Choice magazine.

That consumers still purchase these over-the-counter options suggests the value consumers place on convenience in buying this product. A DSM model would remove this convenience.

Response to Feedback Question 2: Please provide feedback on how this trigger would correspond to your current business practices in selling add-on insurance products

The Government will need to clarify the operation of the trigger event and the 4 day 'shop-around' period in circumstances where a consumer purchases a primary product for use within the 4 day period e.g. a consumer hires a vehicle the day prior to travel and purchases an add-on RVE insurance product for that trip which is scheduled for 2 days. The consumer completes that trip within 2 days. In that circumstance it appears, based on the current proposed definition of a trigger event and the 'shop-around' period, that the consumer will either be unable to be offered an add-on product and be underinsured, or be forced to enter the pressure selling situation of an over-the-counter non-insurance waiver product.

In these circumstances, we would suggest that the deferral period should end, before the insured event occurs e.g. in the above circumstance, the deferral period would end when the consumer commences the travel.

Further feedback and suggestions: There are other measures that regulators can take to protect consumer outcomes

There are other measures that regulators can take to ensure insurance products across all channels are delivering value to consumers, rather than just targeting add-on channels and effectively transmitting the problems to another distribution platform.

Other measures apart from a deferred sales model are better equipped to handle concerns raised by the royal commission for this product line.

One such measure is increasing consumer awareness of right to freely cancel and the ability to shop around during the cooling off period. One way regulators could do this would be to require an email follow up (post purchase online) which clearly outlines to consumers their statutory right to a cooling off period which gives them a window to consider whether or not the purchase is adequate and/or shop around for competitive products. This should be coupled with easy ability for consumers to cancel their policies.

Another measure could be to mandate prescriptive disclosures to consumers when buying a policy online to avoid 'pressured' sales. Such disclosures could include links to external consumer awareness websites, such as ASIC Money Smart, to enable consumers to make informed decisions around their purchase.

Finally, if measures such as target loss ratios are adopted to ensure consumer value, these should apply at the product level, not at the sales channel level.

Rental Vehicle Excess Insurance products should be exempted from a deferred sales model

The Rental Vehicle Excess Insurance digital distribution market provides overwhelming evidence of product value when compared to similar products offered by rental car companies. Enabling consumers to digitally purchase policies at the point of sale / booking creates more product choice, gives consumers the opportunity to properly consider their purchase and shop around, and most importantly, given consumer preferences, offers them the convenience of a seamless purchase. This helps prevent consumers from going underinsured and/or being funneled into purchasing poor value over-the-counter waiver products sold by rental car companies.

We thus strongly believe that Rental Vehicle Excess Insurance should be placed in the third tier and exempted from a deferred sales approach.

APPENDIX:

1.

The table below outlines a sample of the products currently available on the market, and how Cover Genius pricing and coverage compare:

<u>Company</u>	<u>Country</u>	<u>Duration</u>	<u>Vehicle Category</u>	<u>Premium</u>	<u>Provider</u>	<u>Excess covered to</u>	<u>% of RentalCover Premium</u>
Rentalcars (RentalCover product)	Australia	7 days	Compact Car	\$ 101.31	Cover Genius	\$ 100,000.00	100.00%
Vroom Vroom Vroom	Australia	7 days	Compact Car	\$ 152.06	Allianz	\$ 6,000.00	150.09%
Airport Rentals	Australia	7 days	Compact Car	\$ 161.00	AWN Insurance	\$ 3,999.60	158.92%
Hertz	Australia	7 days	Compact Car	\$ 265.93	Not Displayed	\$ 4,800.00	262.49%
Webjet (Atlas)	Australia	7 days	Compact Car	\$ 165.00	AWN Insurance	\$ 2,750.00	162.87%
Rentalcars (RentalCover product)	Australia	3 days	Compact Car	\$ 52.72	Cover Genius	\$ 100,000.00	100.00%
Vroom Vroom Vroom	Australia	3 days	Compact Car	\$ 40.51	Allianz	\$ 6,000.00	76.84%
Airport Rentals	Australia	3 days	Compact Car	\$ 57.30	AWN Insurance	\$ 3,750.00	108.69%
Hertz	Australia	3 days	Compact Car	\$ 113.97	Not Displayed	\$ 4,800.00	216.18%
Webjet (Atlas)	Australia	3 days	Compact Car	\$ 82.50	AWN Insurance	\$ 3,999.60	156.49%

* Source information - Company Websites (for same trip dates)