

30 September 2019

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## **Reforms to the sale of add-on insurance products**

Live Performance Australia (LPA) welcomes the opportunity to provide feedback to the Treasury's Proposal Paper on reforms to the sale of add-on insurance products through a deferred sales model.

### **1. ABOUT LPA**

LPA is the peak body for Australia's \$2.5 billion live performance industry. Established over 100 years ago in 1917 and registered as an employers' organisation under the *Fair Work (Registered Organisations) Act 2009*, LPA has over 400 Members nationally. We represent commercial and independent producers, music promoters, performing arts companies, venues (performing arts centres, commercial theatres, stadiums and arenas), arts festivals, music festivals and service providers (such as ticketing companies and technical suppliers). Our membership spans from small-medium and not-for-profit organisations to large commercial entities.

Several of our Members currently offer add-on ticket insurance, and therefore, will be directly affected by any changes to the way insurance products can be offered to consumers. We have Members who are in the process of transitioning to a new ticket insurance provider. We also have Members who are currently considering the benefits of whether to offer ticket insurance to customers.

### **2. CURRENT PRACTICE**

When customers buy event tickets online, they are provided with an 'opt-in' option to purchase ticket insurance at the same time as purchasing event tickets. Ticket insurance provides customers with a 'safety net'. It allows them to gain a refund for the cost of event tickets should their circumstances change – e.g. they are no longer able to attend the event due to medical or personal reasons. The insurance does not cover instances where customers are covered under Australian Consumer Law (ACL) and consumer guarantees.

The cost of ticket insurance is dependent upon the value of the event tickets. It is generally based on a percentage of ticket value or a tiered flat fee structure. Typically, ticket insurance is low cost and affordable for customers. For example, on a \$250 ticket, ticket insurance will cost customers approximately between \$3 and \$21, which equates to between 1.2% and 8.4% of the value of the ticket.

Demand for ticket insurance varies, with some Members reporting that 25-30% of customers choose to buy ticket insurance.

### **3. LPA'S POSITION ON THE DEFERRED SALES MODEL**

LPA believes a deferred sales model is inappropriate and impractical for event ticket insurance. The feedback we received from our Members is that customers want an easy way to access ticket insurance. This means being able to buy event ticket insurance at the same time as buying event tickets.

LPA believes the live entertainment industry will be unfairly and negatively impacted by any changes to the sale of add-on insurance products. The industry was not the target of the Royal Commission, and the proposal paper notes that the focus has been on the unscrupulous practices of car dealerships and consumer credit insurance. The Proposal Paper does not present any evidence to suggest that problems exist with add-on ticket insurance offered through the live entertainment industry. And yet unilateral reforms are being introduced which unfairly penalise the industry.

**LPA strongly recommends event ticket insurance be exempt from deferred sales** on the grounds that:

- It is a low cost and easy-to-understand option for consumers
- There are no standalone options in the market for consumers to access
- There is a high risk of underinsurance resulting from a deferred sales model
- The high administrative and compliance costs relative to the cost borne by consumers to insure event tickets.

### **4. KEY ISSUES**

#### **Duty of care to customers**

The most common complaint LPA receives about ticketed events is that customers have been denied a refund due to changes in personal circumstances. Consistent with ACL, customers are not entitled to a refund in these circumstances; the decision to provide a refund is at the discretion of the event organiser/promoter/producer. It is rare for an event organiser/promoter/producer to approve refund requests unless required by law. This is because presenting events involves high cost and high risk, and event promoters are highly exposed to financial hardship or failure. Therefore, ticketing providers see offering ticket insurance as an obligation and a duty of care to customers. Customers also benefit from the peace of mind of having ticket insurance.

#### **Pressure-selling**

We do not believe ticket insurance sold via ticketing providers involves pressure selling.

Customers must 'opt-in' by ticking a box online to buy ticket insurance and are informed of the costs to buy ticket insurance, as well as provided with the Financial Services Guide and Product Disclosure Statement.

In addition, unlike other insurance products, we do not believe ticket insurance products are complex or difficult to understand. Ticket insurance has a natural expiration date (being the date of the event) and there are a defined set of circumstances for which consumers are covered. It would not be difficult for a consumer to assess during the course of buying event tickets whether event ticket insurance would be suitable for their needs.

LPA notes that the Government's stated aim is to promote informed purchasing decisions and seeks to achieve this by mandating a pause on insurance purchases. LPA believes, for event ticket insurance, this is better achieved with a 'cooling off' period. A cooling off period already exists, and generally allows customers 14 days to cancel the ticket insurance, unless the event is presented within that timeframe.

### **Value for consumers**

The Proposal Paper notes that some add-on insurance products offer poor value for consumers. Unfortunately, we do not have full access to information to know how event ticket insurance compares. However, analysis by some of our Members suggest that the amount returned to consumers in claims was close to 50 cents in the dollar. This claims ratio reflects the small outlay by consumers, overall demand for event ticket insurance, and the cap of losses suffered (only to the cost of the tickets).

Moreover, consumers place value in insurance products over and above successful claims. The peace of mind consumers derive from having ticket insurance coverage should not be underestimated. Also, consumers may value the convenience ticket insurance offers for recouping tickets costs when they can no longer attend an event. Ticket scalping laws exist in most Australian jurisdictions and, under these laws, ticket resale is only permitted under limited circumstances. While reselling tickets privately may be an option, there are no guarantees that consumers will find another buyer for the tickets.

### **Underinsurance**

LPA believes underinsurance will result from the introduction of a deferred sales model.

Customers want a simple mechanism to access ticket insurance. Based on our Members' experiences, when the process for buying event ticket insurance is complex or offered after purchasing event tickets, there will be limited consumer uptake of ticket insurance.

In addition, unlike other insurance products (such as travel and vehicle insurance) where there are alternative options in the market, there are limited options for standalone ticket insurance. We believe this is because there is little interest from the insurance industry to provide ticket insurance given it is a low value, high maintenance area of underwriting. We are not aware of any Australian providers that offer standalone event ticket insurance, which means that currently the primary way customers can access ticket insurance is through a ticketing provider.

**Therefore, the combination of a complex deferred sales model and the inability for consumers to ‘shop around’ will lead to underinsurance.**

It is also important to note that, under a deferred sales model, there is little incentive for ticketing providers to offer event ticket insurance. The income that ticketing providers receive from add-on insurance will decrease while costs related to administration and IT development will increase. There are significant costs and complexity associated with adapting technology to ensure systems and processes comply with the deferred sales model – for example, there is complexity around linking customers’ tickets to after-sales ticket insurance purchases. Given this, there is a strong likelihood that ticketing providers will no longer offer ticket insurance to customers, thereby exacerbating rates of underinsurance.

## **5. SUMMARY**

In summary, LPA strongly urges event ticket insurance or low value insurance products (for example, under \$50) be classified as tier three, allowing for exemption from the deferred sales model. LPA believes a deferred sales model in the live entertainment industry context will cause great consumer detriment due to higher rates of underinsurance.

If you have any queries in relation to any matters raised in this letter, please do not hesitate to contact us.

Yours sincerely

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