200 | Westpac GROUP

30 September 2019

Mr Russell Campbell
Principal Adviser
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

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Via email: addoninsurance@treasury.gov.au

Dear Mr Campbell,

Submission: Proposal Paper - Reforms to the sale of add-on insurance products

The Westpac Group (**Westpac**) welcomes the opportunity to provide a submission in response to Treasury's Proposal Paper **(Paper)** on reforms to the sale of add-on insurance products. In addition to the comments in this submission, we also support the views expressed in the Insurance Council of Australia's submission on this Proposal Paper.

We support the development of an appropriate deferred sales model for add-on insurance products to improve consumer outcomes.

Our submission focusses on the scope of the deferred sales model. In particular, the impact on home and contents insurance.

We believe home and contents insurance is well understood by Australians and represents good value. On this basis, legislation should be drafted to clearly exempt these products in the primary legislation, in the same way as comprehensive car insurance.

Incorrect scope may lead to poor customer outcomes

Any requirement for home and contents insurance to be subject to a deferred sales model may lead to poor customer outcomes. Depending on the final form of legislation, the model may frustrate the customer experience of securing insurance cover essential to the management of personal financial risk due to loss or damage to their home or contents, or from personal liability.

This is especially true in Queensland, South Australia, Tasmania and the Australian Capital Territory where, in summary, the buyer becomes responsible for loss or damage to the property on exchange of contracts, not property settlement.

Exempting home and contents insurance from the proposed deferred sales model is consistent with the exemption for motor vehicle insurance insofar as both products:

- are well understood by consumers,

- fulfil a fundamental need to cover the risk of loss or damage to the insured property, which is often financed, and
- may be needed immediately to cover the risk of such loss or damage.

Arguments further supporting an exemption in principal legislation.

The Royal Commission reiterated the concerns identified by ASIC[1] that the deferred sales model is intended to address, being that:

- add-on insurance products represent poor value for consumers;
- insurers pay more in commissions than in claims;
- consumer outcomes are considerably worse than in markets where there is meaningful competition; and
- consumers are at risk of unfair sales and adverse outcomes.

The above descriptions cannot be reasonably attributed to policies of home or contents insurance. Supporting this view (as highlighted in the Paper), ASIC Report 492 "A market that is failing consumers: The sale of add-on insurance through car dealers", September 2016, found that, in the period 2013 – 2015, the ratio of premiums paid in claims for home insurance was 55 per cent, compared to 9 per cent across all the add-on insurance products reviewed by ASIC.

The table below shows the Net Loss Ratio for Westpac's home and contents portfolio over the past five financial years. These are materially favourable to the loss ratios of products that have been flagged in the Paper as offering low value.

	FY15	FY16	FY17	FY18	FY19 YTD (to Aug-19)
Home and Contents Net Loss Ratio	62%	53%	57%	48%	65%

The variations are explained by the nature of this insurance type and its exposure to natural events.

Product value for home and contents is also shown by the proportion of accepted claims. Over the last 12 months, approximately 93 per cent of Westpac's lodged home and contents insurance claims were accepted.

Similar to comprehensive car insurance, home and contents insurance is a commonly purchased consumer product and well understood by consumers. With respect to the former, this basis for exclusion was accepted by the Productivity Commission in its Report into Competition in the Australian Financial System[2] and an exemption recommended on this basis by the Royal Commission.

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[1] ASIC Consultation Paper 294 "The sale of add-on insurance and warranties through car-yard intermediaries", August 2017.
[2] Productivity Commission, Report No 89, 29 June 2018, 430.

Unlike many add-on products, the premium on a home and contents policy is paid separately and not bundled into a financing agreement.

In addition, home and contents insurance is also an annually renewable product, meaning the customer can only pay up to 12 months' premium in advance. A new contract is then established via a renewal process which is regulated by Section 58 of the *Insurance Contracts Act 1984* (Cth).

Reflecting the importance to the consumer, it should also be mentioned that home loan contracts *require* a customer to be insured. To meet this requirement however, a customer is not bound to establish insurance cover with the lender. That is, they are free to choose their provider.

Contents only insurance should also not be characterised as an add-on product. While contents insurance can be bundled with home building insurance into a combined home and contents insurance policy, there is no identifiable 'primary product'. That is, the customer is free to purchase either policy separately, or together. The inclusion of contents only insurance in the deferred sales model would lead to significant confusion and frustration from customers that would expect to be able to establish a policy of home and contents insurance in a single application.

We would be pleased to meet with Treasury to discuss this submission.

Yours sincerely,

M. Choueifate

Michael Choueifate
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