

Manager  
Insurance Team  
Financial System Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600  
By email [addoninsurance@treasury.gov.au](mailto:addoninsurance@treasury.gov.au)

Dear Sir/Madam,

**Re: Reforms to the sale of add-on insurance products Treasury Proposal Paper 9  
September 2019**

We refer to the Treasury Proposal Paper “Reforms to the sale of add-on insurance products” published on 9 September 2019 (**Treasury Proposal Paper**), and welcome the opportunity to provide feedback on the proposed model for the sale of add-on insurance products.

**Background**

nib Travel Services Pty Ltd (**nib Travel**) is one of the largest suppliers of travel insurance in Australia. Last year nib Travel protected approximately 730,000 travelling customers, assisted approximately 5,000 people in emergency medical situations and processed more than 23,000 travel claims.

nib Travel is a member of the nib Group of companies. nib Group is a trusted international health partner, empowering our members to make better decisions and improve health outcomes through greater accessibility to affordable health services and information.

nib Travel is not just an insurance provider; we are a travel services company that places the travel experience at the heart of all that we do, providing financial protection and assurance to travellers wherever they are in the world.

nib Travel acts as a Managing General Agent of XL Catlin, a Lloyd’s of London approved service company acting as agent of XL Catlin Syndicate 2003, a member of Lloyd’s (**XL Catlin**), and of XL Insurance Company SE, Australia branch. nib Travel acts under binding authorities which enable nib Travel to provide insurance services in relation to the travel insurance products in Australia. nib Travel is authorised under these binding authorities to develop and price products, manage claims and complaints and to underwrite travel insurance risk on behalf of XL Catlin and XL Insurance Company SE, Australia branch.

nib Travel holds an Australian Financial Services Licence and has appointed our related bodies corporate, recognised brands such as World Nomads, TID and SureSave, as well as other partners such as key players in the travel agency network and white label distribution partners, to distribute and issue the travel insurance products on our behalf.

nib Travel and our representatives distribute travel insurance products through various distribution channels including travel agencies and direct on-line sales. In some cases, travel insurance being sold by our representatives either through travel agents or by on-line sales could be categorised as an add-on insurance product<sup>1</sup>.

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<sup>1</sup> As outlined in the Treasury Proposal Paper there is no existing statutory definition of ‘add-on insurance’, however for the purposes of this submission we are referring to travel insurance which is sold by representatives of insurers or other external sellers as a product that is ‘additional’ to a primary product, and is sold at the same time the primary product it purchased.

We provide the following responses to your requests for feedback outlined in the Treasury Proposal Paper.

### **1. Request for feedback: Please provide evidence as to why a particular type of add-on insurance product should reside in a particular tier**

In our view, there are numerous reasons why travel insurance sold as an add-on product should be classified as a Tier 3 product, and accordingly be exempt from the application of a deferred sales model.

As noted in the Treasury Proposal Paper, the add-on insurance market is diverse and complex, and encompasses a range of products from motor vehicle insurance and CCI to travel insurance. Whilst these products may all have a common sales model of being sold as add-on insurance, we consider there to be a number of distinguishing factors inherent in travel insurance which necessitate it being exempted from the deferred sales model.

The benefits for Australian consumers in having travel insurance cover are well recognised. The Australian Government actively encourages Australians to purchase travel insurance before they travel overseas. As the Government's Smartraveller website states: "If you're leaving Australia, travel insurance is just as essential as your passport."<sup>2</sup>

The Smartraveller website also lists the following reasons why a consumer should have travel insurance:

- The Australian Government won't pay your medical bills for you
- Holidays don't always go as planned
- Some countries won't let you in if you don't have insurance
- Travel insurance is still required when travelling to countries with reciprocal health care Agreements because:
  - If you're very ill, travel insurance can pay for a medical escort to bring you home to Australia
  - Travel insurance can cover you for cancellations, delays, stolen items and more.

The Treasury Proposal Paper states that the Tier 3 category will "protect consumers where the benefits of being able to purchase add-on insurance immediately outweigh the benefits of deferring the purchase"<sup>3</sup>. We wish to emphasise that in the case of travel insurance, the benefits to the consumer associated with having travel insurance cover vastly outweigh any benefits which the consumer may gain by deferring the purchase.

In determining which Tier will apply to a particular product, it is proposed that the following criteria will apply to Tier 3 products:

1. Historically good value for money
2. Strong competition
3. High risk of underinsurance
4. Well understood by consumers

These criteria apply to travel insurance as follows:

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<sup>2</sup> Smartraveller.gov.au.

<sup>3</sup> Reforms to the sale of add-on insurance products Proposal Paper 9 September 2019, Australian Government The Treasury pg 8

### ***Historically good value for money***

The average cost of travel insurance in proportion to the cost of travel is relatively low. The average premium for our add-on travel insurance products is AUD 137 per policy.<sup>4</sup> Furthermore, from a consumer's perspective, the cost to any particular individual consumer who suffers an accident or medical emergency whilst overseas can be significant and have severe financial consequences for the individual.

As stated on the Smartraveller website:

"Accidents can happen to anyone, and medical costs overseas can reach hundreds of thousands of dollars. Australians have faced financial hardship to cover these costs when things go wrong"<sup>5</sup>

Some of the most popular destinations for our customers are the United States of America (USA), Thailand, Japan and Indonesia.

The high cost of the USA hospital system is well known. The average premium across all our brands for cover to the USA is AUD 420.<sup>6</sup> Consumer advocacy site debt.org<sup>7</sup> puts the average daily cost of hospitalisation at AUD 5,813 with an average length stay costing AUD 23,162. Some claims in the USA serviced by nib Travel recently have been as high as AUD 500,000 for medical expenses.

Japan and Thailand also offer world-class hospital facilities. The average premium across all our brands for cover to Japan is AUD 240.<sup>8</sup> While costs are lower than the USA, quality care comes at a high cost. Some claims in Japan serviced by nib Travel recently have been as high as AUD 70,000 for medical expenses.

A world-class facility is available to travellers in Bali, Indonesia. The average premium across all our brands for cover to Bali is AUD 140.<sup>9</sup> The BIMC takes the majority of traveller cases requiring care in Bali. Average daily hospital costs start at AUD 735.

### ***Strong competition***

In our view, there is healthy competition between travel insurance providers in the Australian market and a variety of different channels consumers can purchase travel insurance through.

### ***High risk of underinsurance***

We consider that there would be a high risk of not only underinsurance for Australian consumers if the deferred sales model applied to travel insurance, but more importantly of "non-insurance" as the deferred sales model presents a real risk that a larger number of consumers will travel without any travel insurance.

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<sup>4</sup> This average premium includes both single trip and multi-trip policies, and cover for both individual and multiple travellers on the same policy. This average is also based on all destinations including domestic and international, age ranges and optional extras a customer may purchase over the last 12 months.

<sup>5</sup> Smartraveller.gov.au

<sup>6</sup> This average premium includes both single trip and multi-trip policies, and cover for both individual and multiple travellers on the same policy. This average is also based on all age ranges and optional extras a customer may purchase over the last 12 months.

<sup>7</sup> <https://www.debt.org/medical/hospital-surgery-costs>

<sup>8</sup> This average premium includes both single trip and multi-trip policies, and cover for both individual and multiple travellers on the same policy. This average is also based on all age ranges and optional extras a customer may purchase over the last 12 months.

<sup>9</sup> This average premium includes both single trip and multi-trip policies, and cover for both individual and multiple travellers on the same policy. This average is also based on all age ranges and optional extras a customer may purchase over the last 12 months.

The longer the deferral period is, the greater the risk of consumers travelling without insurance, posing significant financial and personal risk for the consumer.

The Treasury Proposal Paper proposes that a deferral period of four days should apply to the Tier 2 category products. Our analysis of our claims and sales data indicates that there is often a relatively short time frame between a consumer purchasing a travel insurance policy and commencing their travel.

The percentage of people who travel within four days of policy purchase across our portfolio is approximately 21.2 %, and in relation to products sold as “add-on insurance” the percentage of people who travel within four days of policy purchase is approximately 15.4 %. This indicates that were a deferred sales model with a deferral period of four days to apply to travel insurance, there is a high risk that those consumers who make their travel arrangements shortly before commencing their travel may travel uninsured.

The Treasury Proposal Paper notes that the appropriate deferral length should be long enough to allow the “halo effect” of purchasing the primary product to wear off so the consumer is able to dispassionately assess their need for insurance, while providing the consumer with an opportunity to consider alternative options and to shop around. It notes that the deferral period should not be so long that it would result in consumers disengaging entirely from the decision about whether to buy add-on insurance<sup>10</sup>.

Given the public policy imperative for Australian consumers to have travel insurance cover in place when they travel, any deferral period increases the risk that consumers will not remember to purchase travel insurance. Whilst consumers may be encouraged to “dispassionately assess their need for insurance” in the case of travel insurance if the deferral period is long enough for the “halo effect” of the purchase of travel arrangements to wear off then there is a real risk of Australian consumers travelling without any travel insurance.

In addition, we note that there are cancellation policy benefits offered in our travel insurance products which provide cover as soon as the travel insurance is purchased, and before travel commences. Under the proposed deferred sales model a consumer would not be able to benefit from these cancellation provisions until the deferral period ends. Our analysis of our claims data indicates that across our portfolio approximately 4% of claims are made within the first 4 days after policy purchase. Further to this the longer the gap between purchase of travel bookings and purchasing travel insurance, the longer the period of time a customer is uninsured for cancellation due to unforeseen events. This presents a significant lack of cover, particularly for older travellers and high value trips.

Finally for completeness we note that our travel insurance products all contain a cooling off period of at least 14 days. During the cooling off period the consumer is able to decide whether they wish to retain their travel insurance, and can decide not to hold the insurance and receive a full refund if they have not made a claim or commenced their travel.

In our view the cooling off period allows a consumer to make an informed decision about whether to continue with their travel insurance. Unlike the proposed deferred sales model, the cooling off period also benefits the consumer by enabling them to benefit from cancellation cover whilst they determine whether to continue with their travel insurance cover.

### ***Well understood by consumers***

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<sup>10</sup> Reforms to the sale of add-on insurance products Proposal Paper 9 September 2019, Australian Government The Treasury pg 13

We consider our travel insurance products to be generally well understood by consumers. This is evidenced by the positive feedback we receive from our customers, as well as the growing recognition of the importance of travel insurance for Australians who travel overseas.

During the sale of any add-on travel insurance we assist the consumer to assess if the product offered as an add-on is suitable for them, particularly in regard to any pre-existing medical conditions the consumer may have. We invite the consumer to consider deferring the purchase of add-on travel insurance if they have any pre-existing medical conditions so they are able to purchase a different product if appropriate.

**2. Request for feedback: Please provide feedback on how this trigger would correspond to your current business practices in selling add-on insurance products.**

The trigger event outlined in the Treasury Proposal Paper, which determines when the proposed deferral period will begin, is proposed to occur once the customer has made a financial commitment to purchase the primary good/service and the retailer provides the prescribed information about the add-on insurance product, which includes details about the deferral period.

This proposed sequencing is designed to prevent the retailer from providing information to the consumer before the consumer has agreed to purchase the primary product. In our view, this deliberate sequencing is not appropriate in relation to travel insurance, and provides another example why travel insurance should be exempt from the deferred sales model.

The Government has made it clear that from a public policy perspective it considers that it is necessary for Australians to have travel insurance when they travel. Accordingly, consumers should be encouraged to both consider what travel insurance cover they require and to purchase travel insurance when making their primary travel arrangements. If consumers were forced to defer the purchase of add-on travel insurance until after the purchase of their travel arrangements, as discussed above, there is a high risk that consumers will travel uninsured.

The second limb of the proposed Trigger event is the provision of the Prescribed Information to the consumer after the decision has been made to purchase the primary product.

The Treasury Proposal Paper proposes that the format, content and mode of delivery of the prescribed information will be determined by ASIC, however notes that this could include various information such as:

- Total premium of the add-on insurance contract , including options for different cover levels within a particular product;
- The significant features and benefits, significant and unusual exclusions or limitation, and cross references to the relevant policy document provisions; and
- Duration of the policy

nib Travel currently offers travel insurance products as an add-on product through either on-line sales or direct face to face sales by our distribution partners such as travel agents. In both distribution models the consumer is provided details of the premium for the travel insurance, and a Combined Product Disclosure Statement and Financial Services Guide is made available to the consumer. The travel insurance is then purchased by the consumer at the same time as the primary product, being the associated travel arrangements.

We consider that the key information outlined above which is relevant to consumers when deciding whether to purchase travel insurance is contained in the combined Product Disclosure

Statement and Financial Services Guide and Policy wording. This document is made available to consumers before they make the decision to purchase add-on travel insurance.

In our view, introducing any requirement for additional disclosures to be made to consumers before they purchase travel insurance would potentially lead to consumer confusion as the consumer would be provided with multiple disclosure documents throughout the sales process. This may result in consumers being overwhelmed with an excessive amount of information and divert the consumer's attention from the key disclosure document being the combined Product Disclosure Statement and Financial Services Guide and Policy wording. In addition, introducing additional disclosures in the sales process would contribute to increased costs in providing the travel insurance, resulting in additional costs for the consumer.

## Conclusion

In our view, the introduction of a deferred sales model for travel insurance sold as an add-on insurance product would have negative implications for Australian consumers. As detailed in our response, we consider travel insurance should be classified as a Tier 3 product and thus be exempt from these provisions.

Australian consumers should be encouraged to both consider what travel insurance cover they require and to purchase travel insurance when making their primary travel arrangements so as to ensure they receive appropriate financial protection. It is the view of nib Travel that imposing a deferred sales model for travel insurance sold as an add-on insurance product would increase the risk to the financial and personal protection of Australian travellers.

We thank you for the opportunity to provide our feedback on the Treasury Proposal Paper. Please do not hesitate to contact me should you wish to discuss any aspect of this submission.

Yours sincerely,



Anna Gladman  
Chief Executive Officer  
nib Travel

[a.gladman@nibtravel.com](mailto:a.gladman@nibtravel.com)  
nib Travel Pty Limited  
Governor Macquarie Tower  
Level 18, 1 Farrer Place, Sydney NSW 2000