

January 13, 2012

The Committee Secretary
House Standing Committee on Economics
PO Box 6021
Parliament House
CANBERRA ACT 2600

Email: economics.reps@aph.gov.au

Dear Sir/Madam,

Re: Review of Insurance Contracts Amendment Bill 2011

RACQ Insurance (RACQI) welcomes the opportunity to provide a submission to the House Standing Committee on Economics in respect to the proposed Insurance Contracts Act Amendment Bill 2011 (ICAB).

RACQI is committed to working with Government to ensure that consumers are able to access insurance products that provide clear and unambiguous scopes of cover however, we do have three key concerns in relation to the proposed Bill.

These issues are outlined below:

1. The ICAB is an enabling Bill with the majority of the detail relating to the operation of the proposed Key Facts Sheet (KFS) being contained in the yet to be published draft regulations.

The points outlined below in this section assume that potential contracts as defined by the ICAB, are in fact new business quotations.

The requirements as set out in the proposed section 33C(1), imply that a KFS will be required to be provided in writing to a customer at the time of a quotation.

In the Australian direct personal lines market, a large volume of quotations are provided verbally through call centre sales channels. In these situations, consumers will normally be asked a series of questions in order to determine their premium.

These transactions can be of an anonymous nature and therefore do not require any paperwork to be generated and sent to the customer. Similarly with internet based quoting, customers are not generally required to submit their postal address details.

The introduction of a regime which requires insurers to send a KFS (and other associated paperwork) to the customer would add significant cost to the new business quotation process by virtue of the increased processing time and documentation required.

Ultimately, insurers would be forced into a position where these additional acquisition costs would be passed onto the consumer.

We do however support an approach where insurers are obliged to provide a KFS to consumers that are going through the process of purchasing a new business policy which will necessarily include an insurer's full underwriting process as opposed to the abbreviated quotation process.

The existing financial services product "cooling off" provisions under the Corporations Act 2001, allow the consumer within the prescribed timeframe, to review both the KFS and PDS and assess whether the product meets their needs.

This approach does not disadvantage the consumer as they are able to advise their insurer that the product does not meet their needs and are able to obtain a full refund of their premium.

2. The proposed section 33C(2) will create inconsistency in the permissible delivery methods for Product Disclosure Statements (PDS), notices required under the Insurance Contracts Act 1984 and the proposed KFS.

Presently, under the Corporations Act 2001, PDS documents can be delivered electronically to consumers, whilst notices required under the Insurance Contracts Act 1984 can not.

If the ICAB is passed in its present form, insurers would be able to send the KFS and PDS documents electronically, but not policy notices. The inconsistent nature of this approach will lead to consumer confusion as they will be potentially receiving a key piece of disclosure documentation separately to their PDS and KFS.

The incorporation of an amendment similar to what was proposed in Schedule 2 of the lapsed Insurance Contracts Act Amendment Bill 2010 would provide insurers and consumers with a consistent range of platforms to deliver general insurance contract documentation.

3. Under the proposed section 37C, there is a requirement that insurers clearly inform the insured in writing as to whether the contract of insurance provides cover in respect to flood. Insurers would be required to send the customer a PDS at renewal and also in the event of a policy variation.

This approach would be impractical and excessive in the context of the requirements that presently exist in section 11(9) of the Insurance Contracts Act 1984.

By way of example, following the renewal of an existing policy, a customer contacts their insurer to specify an item of jewellery. Whilst there has been a change in the risk, this variation would bear little consequence to the provision of flood cover.

Despite this, under the current proposal a PDS would be required to be sent to the customer, essentially for the sole purpose of providing disclosure regarding flood coverage.

As the KFS will not satisfy the requirement to clearly inform under the proposed legislation, the requirement to clearly inform could be satisfied through an insurer being obliged to show whether a customer has been provided coverage for flood on the certificate of insurance (notice).

We hope that this submission has been of assistance and confirm that RACQ Insurance is happy to provide any further assistance required.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Bradley Heath', with a stylized flourish at the end.

Bradley Heath
Chief Executive Officer
RACQ Insurance Limited