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By email: icareview@treasury.gov.au

Manager
Financial Services Unit
The Treasury
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Dear Manager

Key Facts Sheets for Home Building and Home Contents Insurance Policies

The Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to comment on the draft Key Facts Sheets for home building and home contents insurance policies.

Consumer Action continues to strongly support the introduction of key facts sheets (**KFS**) for consumer insurance contracts. As we have said in the past, we believe that KFSs are capable of:

- improving consumer understanding of what their insurance policy covers, recognising that very few people read and understand their PDS;
- allowing simpler comparison between competing insurance policies, increasing the likelihood that consumers will pick a policy that suits their needs and improving competition; and
- providing important information about under-insurance and how to avoid it—for example by choosing total replacement cover where it is affordable and available.

We broadly approve of the latest draft of the KFS, and we particularly welcome the decision to subject the draft to consumer testing. However, we have recommended some further minor amendments, including:

- that KFSs for both home building and home contents policies should list total replacement cover as one of the types of cover available—at present only the home building KFS mentions the total replacement option;
- the wording in Step 4 of the KFS should be amended to more clearly explain the benefits of total replacement cover and the risks of underinsurance with sum-insured and sum-insured plus margin cover.
- subregulation 4C(2) should include more detail to be clear that a KFS should be provided whenever an insurer enters into a contract with a consumer, or when a consumer requests a quote or information about a policy;
- Subregulation 4C(3) should be amended to require insurers to provide a KFS within one clear working day.

Our comments are detailed more fully below.

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About Consumer Action

Consumer Action is an independent, not-for-profit, campaign-focused casework and policy organisation. Consumer Action provides free and independent legal advice and financial counselling to vulnerable and disadvantaged consumers across Victoria, and is the largest specialist consumer legal practice in Australia. Consumer Action is also a nationally-recognised and influential policy and research body, pursuing a law reform agenda across a range of important consumer issues at a governmental level, in the media, and in the community directly.

Key Facts Sheets

Total replacement cover and home contents policies

We recommend that KFSs for both home building and home contents policies should list total replacement cover as one of the types of cover available.

Step four of the KFS for home building policies explains that there are many different types of insurance available, including sum insured cover, sum insured plus margin and total replacement cover.

However, the KFS for home contents policies does not list total replacement cover as an option. In a recent discussion with Treasury officials, it was explained that the total replacement option was not included on the home contents KFS because no insurers are currently offering total replacement cover on these policies and none are expected to do so in the near future. It was also explained that, if some insurers began offering total replacement cover on contents policies, the Government could quickly amend regulations to require contents KFS to mention the total replacement option.

In our view, it would still be advantageous to list total replacement cover as an option on the home contents KFS. Even if no insurer is currently offering total replacement cover on home contents, there is value in increasing consumer awareness of the risks of under-insurance and that total replacement may be a more appropriate alternative. If more consumers are aware that total replacement cover exists, more will enquire about it when shopping around for insurance and there will be more pressure put on insurers to offer the product.

At a minimum, there is no harm in mentioning total replacement cover on the contents KFS. Insurers may choose to offer this option in future (for example, see the attached pamphlet from one UK insurer advertising total replacement cover for home contents) and if they do, amending the KFS would involve delay and costs—insurers would be required to update their existing KFSs and there would likely be a transition period to allow any update to occur smoothly.

We suggest it would be far simpler to simply include the total replacement option on the contents KFS from the beginning.

Explanation of the benefits of total replacement cover

We believe the benefits of total replacement cover (and the risks of sum insured and sum insured plus margin) need to be more clearly explained on the KFS.

At present, the home building KFS says:

There are many different types of insurance cover available including where:

- You set the maximum level of cover and your payout is limited to that amount (Sum insured).
- You set the maximum level of cover and the insurer may provide you with some agreed extra cover above that amount (Sum insured plus margin).
- The insurer will provide all the costs to rebuild your home when there is a total loss of your property as a result of a significant insurance event such as bushfire (Total replacement).

You should consider which type of cover is best for you.

Failure to adequately insure your contents for its replacement value may result in underinsurance.

We accept that Treasury does not want the KFS to actually advise consumers to take out a total replacement policy as this may not be the best option in all circumstances. However we think the current wording could more plainly explain the benefits of total replacement and the risk of underinsurance under other policy types.

We suggest that the wording on the KFS could be amended to read as follows (with new text in italics):

There are many different types of insurance cover available including where:

- You set the maximum level of cover and your payout is limited to that amount (Sum insured). *Be aware that this type of cover could leave you underinsured. If you set the maximum level too low, your insurance payout may not cover your whole claim.*
- You set the maximum level of cover and the insurer may provide you with some agreed extra cover above that amount, *however you could still be underinsured* (Sum insured plus margin).
- The insurer will provide all the costs to rebuild your home when there is a total loss of your property as a result of a significant insurance event such as bushfire (Total replacement). *With total replacement cover you cannot be underinsured, unless this policy has limits on cover for certain events (see Step 3).*

For another example, the brochure from a UK insurer in the attachment explains total replacement cover on building and contents as meaning that

We won't ask you to estimate the value of your contents or the cost of rebuilding your home, so you'll never be underinsured.

We think this kind of wording better explains the benefits of total replacement cover without advising consumers to choose total replacement over other options.

Sublimits

At present, step 3 of the KFS warns consumers that sublimits may apply and requires insurers to provide at least one example of a sublimit in the policy. We recommend the KFS be amended to alert consumers to all sublimits in the policy.

We suggest this could be achieved by requiring insurers to note any sublimits in the 'main conditions or exclusions' in the table at step 2. We acknowledge that this may mean that other conditions or exclusions for particular risks may not be able to be included in the table at step 2 because of space limitations. However, Sublimits are an extremely significant element of an insurance policy and believe they should be explicitly mentioned on the KFS.

Regulations

Obligation to provide a KFS: Subregulation 4C(2)

Subregulation 4C(2) requires an insurer to provide a KFS to a consumer if the consumer 'requests information about the contract'. It appears that this wording was chosen to capture all inquiries about an insurance contract, and so require KFSs to be provided whenever an inquiry is made. We welcome this intent, however we believe this wording will be able to be interpreted very narrowly by insurers and so have the opposite effect.

We recommend that more detail be given in the regulations to be clear that a KFS should be provided whenever:

- an insurer enters into a contract with a consumer;
- an insurer would otherwise be providing a PDS for a policy; and
- a consumer requests information on a policy, which includes when a consumer asks for a quote, or asks for more detail or information on a policy.

This recommendation would not in our view change the intended effect of 4C(2) and would not, for example, override the operation of 4C(7) which sets out circumstances in which an insurer is not required to provide a KFS.

Delays in providing a KFS: Subregulation 4C(3)

Subregulation 4C(3) requires an insurer to provide a KFS 'as soon as reasonably practicable, but not later than 14 days'. This period should be shortened.

Fourteen days is an unnecessarily long time and we see no reason why insurers should not be required to at least dispatch a KFS within one clear working day. If insurers typically chose to provide KFSs between 10-14 days, we believe the usefulness of the KFS as a comparison tool would be seriously compromised for consumers who are unable to access the KFS on the insurers webpage.

Please contact David Leermakers on 03 9670 5088 or at david@consumeraction.org.au if you have any questions about this submission.

Yours sincerely

CONSUMER ACTION LAW CENTRE



Gerard Brody
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Appendix - Pamphlet from UK insurer featuring total replacement cover

John Lewis Insurance

To find out more and see our full range of insurance products, visit johnlewis.com/insurance

Or call us on the numbers below.

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Home Insurance 0800 916 6800

Specialist Home Insurance 0800 916 6880

Pet Insurance 0800 916 6830

Car Insurance 0800 916 6871

Wedding Insurance 0800 916 6820

Event Insurance 0800 916 6820

Life Cover 0800 916 6840

Home Insurance



Terms, conditions, limitations, exclusions and eligibility criteria apply. A full copy of the policy wording and the insurance complaints procedure are available on request. John Lewis Insurance is a trading name of John Lewis plc. Home Insurance: John Lewis plc is an appointed representative of AXA Insurance UK plc, which is authorised and regulated by the Financial Services Authority (FSA). Specialist Home Insurance: John Lewis plc is an appointed representative of Sterling Insurance Company Limited, which is authorised and regulated by the Financial Services Authority (FSA).

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If your house is uninhabitable, we'll find a place you can call home.

If something seriously damaged your home – a flood for example – it'd be impossible for you to stay there. Which is why we'll find another house, similar to your own, for you to settle into until you can return home.

That's just one of the ways John Lewis Home Insurance will be with you when it matters. Here are some more:

- **Unlimited Buildings and Contents Cover** – we won't ask you to estimate the value of your contents or the cost of rebuilding your home, so you'll never be underinsured.
- **£15,000 for individual valuables** – we'll cover your most prized possessions, such as jewellery, with a total limit of £30,000.
- **Personal Possessions Cover up to £25,000** – which covers your belongings anywhere in the world.
- **Matching Sets Cover** – if, for example, one part of your lounge suite is damaged and we can't find a replacement that'll match, we'll replace the whole set.
- **Accidental Damage Cover** – if you have an accident, like spilling red wine on your carpet, we'll arrange to have it cleaned or replaced.
- **24-hour Home Emergency Cover** – if, for example, a pipe bursts in your house, we'll find a reliable tradesperson and pay up to £1,500 towards parts and labour.



See how we compare with other policies:

Product	Unlimited alternative accommodation as standard	Unlimited Buildings Cover as standard*	Unlimited Contents Cover as standard*	Total valuables limit of at least £30,000 as standard**
John Lewis Insurance	✓	✓	✓	✓
Aviva Home Insurance (Sum Insured)	✗	✗	✗	✗
More Than Premier	✗	✗	✗	✓
Saga Home Insurance	✗	✗	✗	✗
Sainsbury's Finance	✗	✓	✗	✗

Source: Defaqto's Aequus Database 12 August 2011. *There is no total sum insured limit but single article and total valuable limits apply. **Single article limit applies.

John Lewis Specialist Home Insurance

Our expert underwriters can create a bespoke policy if you have more specific requirements, for example, if you have valuables worth over £15,000 each or your home has six or more bedrooms or a thatched roof. We can also provide cover for a second property in the UK or abroad in addition to your main home. To find out more or to get a quote call **0800 916 6880**.

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