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## **NIBA Submission: Inquiry into standardising natural hazard definitions and reviewing standard cover for insurance**

The National Insurance Brokers Association (NIBA) and its members welcome the opportunity to provide feedback to the government's inquiry into standardising natural hazard definitions and reviewing standard insurance cover.

NIBA is the peak representative body for the general intermediated insurance industry. NIBA serves as the collective voice of approximately 450 member firms and 10,000 individual brokers. Our membership encompasses a diverse range of entities, including large multinational insurance brokers, Australian broker networks, as well as small to medium-sized businesses located in cities and regional areas around Australia.

NIBA aims to promote insurance brokers and their role in supporting and advising clients on risk management and insurance matters. NIBA provides this knowledge and expertise to governments and government agencies to facilitate understanding of the operation of general insurance markets.

While NIBA supports the implementation of standardised definitions, particularly where they alleviate consumer confusion and facilitate a more straightforward comparison of coverage across insurers, it is essential to recognise that such standardisation alone may not address affordability issues or actively encourage consumer engagement with disclosure documentation. It's crucial to temper expectations and acknowledge that standardisation is not a cure-all for claims-related challenges or the problem of underinsurance.

Furthermore, any efforts to standardise terms must be undertaken with care to ensure they do not inadvertently stifle innovation within the industry. The ability of product issuers to develop and offer innovative insurance products that meet consumers' evolving needs and preferences is vital to a healthy and competitive general insurance market.

### **NIBA responses to consultation questions**

*To what extent is consumer misunderstanding of insurance policies leading to unintentional underinsurance or inappropriate insurance?*

Consumer misunderstanding of insurance policies poses a significant risk, potentially leading to unintentional underinsurance or inadequate coverage. Various factors contribute to this

challenge, including the intricate nature of policies, a lack of transparency from insurers, misconceptions and assumptions regarding coverage, infrequent policy reviews and updates, and limited financial literacy among consumers.

However, the involvement of a qualified insurance broker can substantially mitigate these risks. Serving as trusted risk advisors, insurance brokers offer personalised guidance on selecting the most appropriate policies tailored to their client's specific needs, thereby minimising the likelihood of underinsurance. A 2020 report examining the economic value of insurance brokers revealed that prior to engaging a broker, 45% of new clients were underinsured.<sup>1</sup>

Additionally, the 2022 Insurance Brokers Code of Practice mandates brokers to ensure clients understand the advice provided, including costs, key risks, and benefits associated with recommended products. This requirement fosters transparency and empowers consumers to make well-informed decisions regarding their insurance coverage.

It is important to note that underinsurance is often a response to rising premiums or confusion surrounding replacement value, issues not directly addressed by standardising terms or altering the standard cover regime. Therefore, while addressing these concerns is crucial, neither should be considered a singular solution to Australia's underinsurance challenges. A comprehensive approach is necessary to effectively tackle this complex issue.

*Do you agree with the priority terms that are proposed for standardisation (fire, storm, stormwater, and rainwater run-off)?*

NIBA acknowledges the prioritisation of "storm" and "stormwater and rainwater run-off" for standardisation, as these terms are recognised as areas that require clarity within the insurance industry. However, NIBA holds reservations regarding the proposal for standardising the definition of "fire".

The consultation paper identifies 3 criteria that a hazard must satisfy in order to be considered for standardisation.

1. The term has been identified as causing consumer confusion.
2. The term relates to a significant area of coverage in the Australian general insurance market?
3. The hazard has generated significant insured damages in Australia in recent years or is it expected to do so in the future.

While bushfires meet two of these criteria, NIBA is not convinced that the definitions of "fire" within insurance contracts have led to consumer confusion. Additionally, inquiries conducted following the 2019-20 bushfire season did not identify that the term "fire" specifically caused confusion.

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Deloitte Access Economics. (2020). *The economic value of insurance brokers*.

NIBA emphasises the importance of evidence-based decision-making in determining which hazards warrant standardisation. While acknowledging the significance of bushfires, NIBA advocates for a thorough examination of consumer confusion and market impact before implementing standardised definitions, ensuring that efforts are focused where they are most needed within the industry and do not result in adverse outcomes for consumers.

*Are there any additional natural hazard terms you think should be standardised?*

NIBA has not identified any additional terms that would substantially benefit from standardisation.

*How well is the current standard cover regime achieving its intended purpose?*

The introduction of the Standard Cover Regime within the Australian insurance industry aimed to establish a foundational level of coverage in insurance policies, fostering uniformity and signalling to consumers when products deviate from expected levels of coverage.

However, as highlighted in the consultation paper, insurers possess the ability to offer products that differ from this cover, provided they disclose such deviations to the client, usually in the form of a product disclosure statement (PDS).

In NIBA's view, while this disclosure satisfies the insurer's duty to inform the consumer, it is unlikely to be effective in informing consumers that their policy does not meet the minimum baseline of the standard cover regime, as consumers rarely interact with disclosure documents prior to taking out a policy.

As the government acknowledged in its discussion paper on improving disclosure in general insurance, "the standard cover regime, by itself, is unable to deliver consistent coverage between insurance contracts and enhance consumer understanding."<sup>2</sup> This limitation primarily stems from the regime's reliance on consumers to understand the standard cover regime and how it differs from the product being offered to them, rather than imposing an obligation on insurers to clearly inform consumers of the standard cover regime and the disparities between their product and this standard.

*Which of the three options for intervention would best achieve the intended purpose?*

While NIBA supports a review of the standard cover regime, it is important to ensure that the review's policy objectives are clearly defined to avoid unintended consequences. As previously noted, reforms to the standard cover regime are unlikely to address affordability concerns and, if inadequately structured, could potentially drive insurers out of the market, elevate premiums for high-risk properties, and exacerbate consumer confusion.

*Which of the three options is least likely to achieve the intended purpose?*

In NIBA's view, option three is unlikely to achieve the intended policy objectives.

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<sup>2</sup> Disclosure in general insurance: improving consumer understanding Discussion Paper, January 2019.

## Other issues

NIBA acknowledges that there may be scenarios wherein a consumer's circumstances require a policy offering less coverage than outlined in the standard cover regime. In NIBA's view, the ability to provide such policies should be retained; however, to ensure consumers are not inadvertently underinsured, these policies should only be available through an intermediated channel where the consumer has access to a trusted risk advisor acting on their behalf.

NIBA is grateful for the opportunity to contribute feedback to this inquiry and emphasises the importance of thorough consideration to ensure that any reforms align closely with consumer expectations and do not inadvertently hinder competition or innovation. We look forward to continued engagement with Treasury on these reforms.

Should you have any queries in relation to our submission, please do not hesitate to contact Ms Allyssa Hextell, Head of Policy & Advocacy, at [ahextell@niba.com.au](mailto:ahextell@niba.com.au).

Yours sincerely,



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