



Brotherhood  
of St Laurence

Working for an Australia free of poverty

9 December 2010

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By email: [fleur.grey@asic.gov.au](mailto:fleur.grey@asic.gov.au)

Dear Ms Grey

**ASIC Consultation Paper 144: Giving a PDS in Telephone Sales of General Insurance Products**

The Brotherhood of St Laurence welcomes the opportunity to comment on the above consultation paper.

The Brotherhood of St Laurence is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the Brotherhood continues to fight for an Australia free of poverty, guided by principles of advocacy, innovation and sustainability. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both national and local levels.

The Brotherhood believes that all Australians have a right to fair and affordable access to basic services, including insurance. Insurance is a vital tool for protecting assets and providing a safety net against loss of income, loss of assets, or financial distress caused by unexpected life events. Insurance can be of particular benefit to those who can least access it. To this end, the Brotherhood is conducting research into increasing access, understanding and uptake of research for low income Australians.

As part of our wider efforts to promote social inclusion, the Brotherhood also develops and demonstrates effective financial capability and asset building programs for disadvantaged people to address financial and market exclusion. Given this area of expertise, this submission seeks particularly to give a voice to the experiences of low-income people as consumers in the insurance sector, but highlight concerns applicable to the whole population.

## **Myth of informed consumers**

The Brotherhood's experience is that many consumers are either misinformed in their dealings with insurance providers, including in relation to price, obligations and claims. Many more have misconceptions about insurance, or are ill-informed.<sup>1</sup> The level of complexity in the products, combined with low levels of general and financial literacy, mean that it is very difficult for consumers to assess pricing, cover, liabilities, exclusions and other information. This applies not just to understanding a particular product, but also being able to readily compare across products and providers.

In light of this, the Brotherhood firmly believes that point 8(a) of the consultation paper (that insurance products "are relatively straightforward") is inaccurate. Furthermore, point 8(c) (that insurance products "are usually subject to standard terms and conditions") is true, yet between policies and providers there is great variation in the definition of terms, as well as the terms and conditions imposed on similar policies. This is particularly true and relevant to exclusions.

### *Complexity*

While acknowledging the actuarial nature of insurance, the Brotherhood is increasingly concerned with levels of complexity and opaqueness in the insurance contracts, and product disclosure statements.<sup>2</sup> Retail competition has resulted in a significant increase in retailer marketing, and high-pressure or misleading conduct by marketers and salespeople is a concern, particularly in relation to consumer credit insurance. For clients of the Brotherhood, this is a particular concern.

### *Literacy levels*

In considering this class order relief, ASIC should consider the literacy levels across the Australian community that may impact consumers' ability to interpret pricing and product information.

The ABS Adult Literacy and Life Skills Survey measures:

- prose literacy: the ability to understand and use information from narrative texts, including newspapers, magazines and brochures :
- document literacy: required to locate and use information in job applications, payroll forms, transportation schedules, maps, tables and charts
- numeracy: required to manage and respond to the mathematical demands of diverse situations
- problem solving: goal-directed thinking and action in situations for which no routine solution is available.

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<sup>1</sup> Sheehan, G & Renouf, G 2006, *Risk and Reality: Access to general insurance for people on low incomes*, Brotherhood of St Laurence, Fitzroy, Victoria.

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The final three are particularly relevant to considering the complexity, cost and pressure of buying insurance – document literacy to understand the pricing tables; numeracy literacy to determine what the pricing information means for a final bill; and, problem solving literacy to determine which offer out of a number is the most suitable. The ABS found that between 7 and 10 million Australians have literacy levels in each of these three areas below the "minimum required for individuals to meet the complex demands of everyday life and work in the emerging knowledge-based economy".

In 2008, the Brotherhood with Griffith University undertook research with consumer credit borrowers about the barriers to their understanding of credit contracts. The findings of this research could equally apply to insurance, including pricing information and disclosure. That research found that the major barriers to understanding were:

- Language and literacy – consumer information is often provided through complex, non-visual methods, meaning that those with low literacy levels have difficulty interpreting it;
- Length of documents – long documents generally overwhelm consumers and inhibit clear decision-making; and
- Information overload – when overwhelmed with lots of information, normal consumer response is to ignore information completely.

These findings on literacy levels and consumer information underscore the need for insurance PDSs and pricing information to be simple and easy to understand.

### **Uncertainty of need for relief**

The Brotherhood recognises there is a difference between unsolicited marketing and genuine product enquires made by an individual.

Our principal concern relates to unsolicited offers, where pressure sales are more likely to occur – we have commented on this in relation to other sectors previously.<sup>3</sup> In general, the anti-hawking provisions of the *Corporations Act* prohibit unsolicited sales, in recognition of the risks involved and consumer detriment that can arise from pressure selling. Disadvantaged Australians, such as the elderly or those from a non-English speaking background, may be more susceptible to pressure selling.

We acknowledge the concession included in the legislation for telephone sales of certain financial products, including insurance. We strongly support ASIC's comments in paragraphs 24 and 25 that the proposed relief would not impact the current requirement that, in an unsolicited telephone sales context, the requirement to provide a PDS before a consumer is bound to acquire an insurance policy. It should be noted, however, that we do not support

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<sup>3</sup> Brotherhood of St Laurence 30 April 2010, *Submission to the Australian Energy Regulator* (Retail Pricing Information Guidelines), Brotherhood of St Laurence, Fitzroy, Victoria.

the legislative concession and that, for the reasons outlined above, there should be a complete ban on unsolicited telephone sales of financial services, including insurance.

Despite the above, we also maintain concerns in relation to solicited telephone sales, particularly those made by those from a non-English speaking background. It is our experience that many such consumers misunderstand key elements of the insurance policy and that insurance salespeople generally lack the relevant skills and/or knowledge to explain key elements of a policy. For that reason, we do not think that the relief should be awarded without further empirical analysis of telephone sales of insurance, particularly the experience of marginalised consumers.

While we acknowledge there may be benefits for a consumer in receiving a quote for insurance during a telephone call, such as the increased convenience, we suggest caution. We support the comment by ASIC that many consumers might think that providing information for a quote, and receiving the quote, they are under a legal obligation to apply for and acquire the general insurance product. Given this, and the other concerns raised by ASIC in paragraph 28 of the consultation paper, we support the requirement that a consumer be required to take positive action to apply for insurance after receiving a quote via the telephone – either completing a written application form, or making another telephone call after receiving the PDS. This should apply in the context of both unsolicited and other telephone sales.

We also believe that telephone sales people should be required to clearly inform consumers of such extra steps, to offset the risk that the consumer will think they are covered only by receipt of a quote. Such requirements should be accompanied by better education by the industry, particularly for low-income and other marginalised Australians, about the nature, benefits, risks and rights in relation to insurance.

In summary, the Brotherhood:

- Recognises the benefits of insurance, especially for those who can least afford to replace assets.
- Acknowledges the role unsolicited marketing can play in increasing insurance cover and access; however, the Brotherhood is not convinced this is the most appropriate marketing mechanism for our clients.
- Supports the requirement that in the context of unsolicited telephone sales, a PDS is provided to a consumer before the consumer can be bound by the policy.
- Believes that the legislative concession to the anti-hawking provisions applying to telephone sales should be revoked.
- Supports the additional disclosure requirements and other limitations outlined in Table 1 of the consultation paper, on the proviso that further empirical analysis is undertaken about the experiences of marginalised consumers with telephone sales of insurance.
- Believes that telephone salespeople should be required to clearly inform consumers of additional steps required to finalise an insurance policy, after the provision of a quote.

- Believes that the insurance industry should be required to educate consumers, particularly low-income and marginalised consumers, about the nature, benefits, risks and rights in relation to insurance.

Should you have any questions about this submission, please contact Dominic Collins on 03 9483 2479 or email [dcollins@bsl.org.au](mailto:dcollins@bsl.org.au)

Yours sincerely

Tony Nicholson  
Executive Director