



ASIC
Australian Securities &
Investments Commission

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and Investments Commission**

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To: Directors of general insurance companies

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Dear Directors

**ASIC's expectations of general insurers:
responding to consumers in financial hardship**

ASIC is committed to promoting the confident and informed participation of consumers in the financial system, including consumers experiencing financial hardship or vulnerability.

During the COVID-19 pandemic we have been working constructively and pragmatically with general insurers and the Insurance Council of Australia (ICA) to improve insurers' framework for responding to consumers in financial hardship.

This work has focused on:

- ensuring that general insurers are doing everything possible to minimise the number of consumers who could become uninsured or under-insured due to the financial consequences of the COVID-19 pandemic, and
- helping to prevent unfair outcomes for consumers with travel insurance policies.

Through this work we identified a number of areas where general insurers could make improvements to support consumers during both challenging and stable economic cycles.

The purpose of this letter is to set out our expectations of general insurers in line with their general obligation as Australian financial services (AFS) licensees to act efficiently, honestly and fairly.

In ASIC's view, acting efficiently, honestly and fairly includes:

- effectively supporting consumers experiencing financial hardship or vulnerability, and
- ensuring that travel insurance policies provide material value.

We will continue to work with general insurers and the ICA to establish consistent and better approaches to support consumers experiencing financial hardship or vulnerability and to help prevent unfair outcomes for consumers.

DRAFT – EMBARGOED UNTIL RELEASE

ASIC’s expectations of general insurers

In the appendix to this letter, we set out the improvements we expect all Australian general insurers to make after our recent work on hardship and travel insurance. These improvements build on the expectations in our letter to general insurers of [27 April 2020](#).

In our view, the improvements we have identified will help consumers, especially now that the Government stimulus and support measures implemented during the COVID-19 pandemic have been reduced or ceased. Together with the lessons learned and improvements made since March 2020, these improvements can help insurers to build a more complete and robust hardship framework into their ongoing business model.

We consider there is real value in continuing to improve industry standards for better and more consistent outcomes for consumers.

The improvements are particularly relevant to the COVID-19 pandemic, especially for travel insurers. However, we expect that all Australian general insurers and, where relevant, third-party distributors (including of ‘white-labelled’ products), will apply them to their ongoing business operations to ensure a more complete and robust hardship framework for the future.

The improvements in the appendix to this letter are not an exhaustive list. We encourage you, as directors, to continue to consider what options and actions may be suitable in these challenging times—in line with the obligation for an AFS licensee to do all things necessary to provide financial services efficiently, honestly and fairly.

ASIC’s review of general insurers’ responses to consumers in financial hardship

On [27 April 2020](#), ASIC wrote directly to general insurers to set out our expectations of them in responding to the COVID-19 pandemic—namely, that insurers consider their conduct in light of the current circumstances and act in a fair and professional manner in line with their duty of utmost good faith.

Since June 2020, we have been reviewing and monitoring how general insurers have responded to consumers experiencing financial hardship during the COVID-19 pandemic. In particular, we focused on home insurance and car insurance, and on travel insurance.

For home insurance and car insurance, our engagement with general insurers centred on:

- preventing unfair outcomes for consumers with these products, and
- ensuring that the number of consumers who become uninsured or under-insured due to the financial consequences of the COVID-19 pandemic was as low as possible.

For travel insurance, our engagement centred on ensuring that:

- these products continue to provide material value to consumers in light of travel restrictions and border closures implemented in response to the COVID-19 pandemic and in an environment of ongoing uncertainty, and
- where these products do not provide material value—consumers are provided with refunds.

The general insurers we engaged with covered more than 70% of the retail home insurance and car insurance market by gross written premium, and about 90% of the retail travel insurance market.

During our engagement, we reviewed:

- information about support options available for consumers
- the planning in place to prepare for the time after the Government stimulus and support measures implemented during the COVID-19 pandemic would be reduced or cease, and
- quantitative data about hardship requests, support options granted, lapses, cancellations, claims and complaints.

We appreciate the open and collaborative approach of the general insurers we worked with, which allowed us to have early and timely engagement, to receive valuable insights into consumer behaviour, and to benchmark better practices to support good outcomes for consumers.

We recognise the critical and timely work undertaken by general insurers in responding to the COVID-19 pandemic and we have been encouraged by their responses to consumers experiencing financial hardship.

These responses included:

- broadening the range of support options available to policyholders
- proactively identifying, communicating with, and supporting consumers experiencing financial hardship or vulnerability
- extending the end date of COVID-19 specific hardship assistance, and
- ensuring that refunds of premiums paid for travel insurance are offered where policies no longer provide any material value and that refunds are in a form that provides value to consumers.

ASIC's ongoing work on hardship

ASIC will continue to monitor how general insurers are responding to consumers experiencing financial hardship or vulnerability. We thank the general insurers and the ICA for their continued and positive engagement on this work. We look forward to ongoing engagement with industry on these key issues.

I would be pleased to discuss these issues further. Please contact me if you would like to do so.

Yours sincerely



Emma Curtis
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Appendix: Responding to consumers experiencing financial hardship or vulnerability—ASIC’s expectations of Australian general insurers

Home insurance and car insurance

ASIC’s expectations	What this means	Findings of our review
<p>1. Offer a range of flexible support options to help consumers maintain cover</p>	<p>We expect that general insurers will offer a range of flexible support options to help consumers who are experiencing financial hardship to maintain their insurance cover (noting that consumer circumstances differ).</p>	<p>In our review, we found that insurers offered a number of support options.</p> <p>These options include:</p> <ul style="list-style-type: none"> • providing short-term premium waivers and discounts • permitting a hold or deferral of premium payments • removing the loading for monthly premiums • reassessing the consumer’s risk profile (e.g. because of changes in circumstances due to the COVID-19 pandemic such as driving less or spending more time at home) resulting in reduced premiums, and • implementing non-insurance initiatives such as access to free counselling, welfare checks and gift vouchers.
<p>2. Offer a range of support options to prevent unfair outcomes for consumers</p>	<p>We expect that general insurers will offer a range of flexible support options to help prevent unfair outcomes for consumers, or affected third parties, who are experiencing financial hardship.</p> <p>For example, if consumers who have made a claim have to pay an excess, we expect that general insurers will provide options for consumers in paying the excess so the claim can be progressed.</p>	<p>In our review, we found that insurers offered a number of support options.</p> <p>These options include:</p> <ul style="list-style-type: none"> • waiving the excess on the claim in part or in full • allowing the excess to be paid in instalments • deducting the excess from the cash settlement • suspending or waiving third-party debt recovery or allowing debts to be paid in instalments, and • waiving cancellation fees.

ASIC’s expectations	What this means	Findings of our review
<p>3. Provide proactive, clear and transparent communication about support options</p>	<p>We expect that general insurers will:</p> <ul style="list-style-type: none"> proactively communicate with consumers (including those identified as experiencing or potentially experiencing hardship) in a clear and transparent way about support options available, and ensure that this information is easily available and prominently displayed (e.g. on websites and in written communication). <p>This includes explaining the effect on insurance cover if an option is applied (e.g. any reduction in cover) and any relevant timeframes (e.g. end date of the support option).</p>	<p>In our review, we found that where there were indicators that the consumers were experiencing financial hardship, not all insurers were proactively communicating with consumers about support options available.</p> <p>While all insurers provided one or a combination of support options to help consumers experiencing financial hardship, this information was not clearly stated in publicly available information (e.g. on websites or in advertisements).</p>
<p>4. Regularly collect and monitor data to identify and proactively help consumers in hardship</p>	<p>We expect that general insurers will regularly collect and monitor data to identify and proactively help consumers experiencing financial hardship.</p> <p>Such data or indicators of potential hardship can include hardship requests, arrears, reduction in the amount or type of cover, unsuccessful payment attempts, existing or previous hardship arrangements, and conversations with consumers that indicate difficulty in paying premiums.</p>	<p>In our review, we found that insurers monitored policy cancellations, lapses (non-renewals) and complaints.</p> <p>However, data on hardship requests and outcomes was not being actively monitored by all insurers.</p>

ASIC’s expectations	What this means	Findings of our review
<p>5. Proactively engage with consumers before the end of support options</p>	<p>We expect that general insurers will proactively engage with consumers before the end of any support option (except where the support option is very short term) to consider the consumer’s circumstances and whether any further assistance is needed.</p> <p>We also expect that general insurers will proactively engage with consumers before the end of any deferral period, rather than after a payment is missed, to ensure the consumer is aware that premium payments are due.</p>	<p>In our review, we found that deferrals of premiums had a lower take-up by consumers compared to short-term premium waivers and discounts.</p> <p>Deferrals of up to three months were commonly offered and could result in consumers being asked to pay all outstanding premiums at the end of the deferral period, or enter into a payment plan.</p> <p>One way to proactively manage the risk of consumers being unable to repay deferred premiums (‘bill shock’) is to remind them of their obligations before the deferral period ends and allow them to repay deferred premiums in instalments.</p>
<p>6. Avoid asking for unnecessary documentation</p>	<p>We expect that general insurers will avoid asking consumers for unnecessary documentation.</p>	<p>In our review, we found that:</p> <ul style="list-style-type: none"> • most insurers required no or minimal documentation for hardship applications, and • all insurers provided delegations to frontline staff for approving hardship support options. <p>These streamlined processes are important so that consumers can more readily access hardship assistance in a timely manner.</p>
<p>7. Prepare systems and resources to respond to any significant increases in hardship requests</p>	<p>We expect that general insurers will prepare systems and resources to respond to any significant increase in hardship requests in the medium to longer term (e.g. due to a reduction or other change in Government stimulus and support measures).</p> <p>For example, data being monitored (see point 4) could be used to respond to any material changes in consumer behaviour (e.g. increased indicators of financial distress and number of hardship requests).</p>	<p>In our review, we found that insurers had planned for an increase in consumers seeking hardship assistance.</p>

Travel insurance

ASIC's expectations	What this means	Findings of our review
<p>1. Provide refunds where policies are likely to provide no material value</p>	<p>We expect that travel insurers will proactively offer to cancel travel insurance policies and provide a refund of premiums paid where the policies no longer provide any material value.</p> <p>We consider that a policy provides no material value if, before making a claim under the policy, the consumer is unlikely to be able to travel due to a 'do not travel' warning issued by the Australian Government, or because of international border closures for non-essential travel.</p> <p>The offer to consumers should be made through all relevant distribution channels (e.g. travel agents, airlines, banks and other insurance providers).</p> <p>It should include clear refund-eligibility criteria and remind consumers to consider whether they could make a claim before cancelling their policy.</p>	<p>In our review, we found that:</p> <ul style="list-style-type: none"> all insurers now offer a refund of premiums paid for travel insurance where the policies have been cancelled and provide no material value to consumers most insurers provide a refund of the whole insurance premium paid rather than retaining the used portion of the premium, and while most insurers are proactively contacting consumers to offer the refunds, some insurers are not.
<p>2. Provide refunds in cash</p>	<p>We expect that travel insurers will, as the default position, offer a refund of premiums paid for travel insurance in the form of a cash refund rather than a credit note.</p> <p>Given the prolonged and ongoing uncertainty about the resumption of travel to pre-pandemic levels, there is a real risk that consumers may not be able to use credit notes.</p>	<p>In our review, we collected data from travel insurers about travel insurance complaints. We found that two insurers received significantly more complaints because they offered credit notes as a default option instead of a cash refund.</p> <p>After our engagement, these insurers are now offering either cash refunds as the default or an option that the consumer can select (without being restricted only to credit notes).</p>

ASIC's expectations	What this means	Findings of our review
<p>3. Ensure that credit notes selected by consumers are valid for a reasonable period of time and provide material value</p>	<p>We expect that, if a consumer asks for premiums paid for travel insurance to be refunded as a credit note, the credit note will be:</p> <ul style="list-style-type: none"> • valid for a reasonable period of time after travel restrictions are lifted, and • convertible to a cash refund. 	<p>In our review, we found that one insurer made its credit notes valid for 18 months after the Australian Government opens international borders for non-essential travel.</p> <p>Another insurer extended the validity date on its credit notes to 31 March 2022 and was open to further extensions while travel restrictions are in place.</p> <p>Note: The 'validity date' is the date by which a consumer needs to use the credit note to pay for a new travel insurance policy—not the date when they need to travel.</p> <p>ASIC considers that validity dates should be flexible and be extended where travel restrictions remain in place longer than originally anticipated.</p> <p>Both of the above options help provide flexibility, which is a key factor to help support good customer outcomes, and look to provide a reasonable period of time to use the credit note after travel restrictions are lifted.</p>
<p>4. Align refund eligibility with travel warnings issued by the Australian Government</p>	<p>We expect that travel insurers will align their offer of a refund of premiums paid for travel insurance (i.e. the travel dates in the eligibility criteria) with the date that a 'do not travel' warning is issued by the Australian Government.</p>	<p>In our review, we found that most insurers used travel dates that were in line with, or more generous than, the date of the Australian Government's 'do not travel' warning when assessing a refund of insurance premiums.</p> <p>After our engagement, one insurer who did not do this aligned their travel dates for refund eligibility in this way.</p>

ASIC's expectations	What this means	Findings of our review
<p>5. Prominently disclose key pandemic exclusions and limitations</p>	<p>We expect that travel insurers will explicitly inform consumers before they buy a product about key exclusions and limitations to cover arising from a pandemic (e.g. exclusions for known events, pandemics or epidemics, and travelling against official warnings).</p>	<p>In our review, we found that all insurers informed consumers about potential exclusions and limitations to cover arising from the COVID-19 pandemic.</p> <p>However, insurers could improve their disclosure by:</p> <ul style="list-style-type: none"> displaying key information about the cover (e.g. exclusions and limitations) in a more prominent position at the point of sale, and providing general examples of how relevant policy exclusions may operate with any travel alert or warning. <p>It is important that consumers understand how policy exclusions operate so they can make an informed decision about the use and value of the cover before they buy it.</p>
<p>6. Avoid asking for unnecessary documentation</p>	<p>We expect that travel insurers will avoid asking consumers for unnecessary documentation.</p>	<p>In our review, we found that most travel insurers could provide refunds during the COVID-19 pandemic without requiring consumers to produce supporting documentation, by relying on the consumer's declaration to assess their eligibility to obtain a refund.</p> <p>Declarations were minimal and relevantly focused on whether consumers had departed (or planned to depart) and had made a claim (or planned to make a claim).</p>