

18 February 2014

Insurance Council of New Zealand
P O Box 474
WELLINGTON 6140

SUBMISSION on Fair Insurance Code Review

1. Introduction

1.1 Thank you for the opportunity to make a submission on this review. This submission is from Consumer NZ, New Zealand's leading consumer organisation. It has an acknowledged and respected reputation for independence and fairness as a provider of impartial, and comprehensive consumer information and advice.

Contact: Sue Chetwin
Consumer NZ
Private Bag 6996
Wellington 6141
Phone: 04 384 7963
Email: suzanne@consumer.org.nz

2. Fair Insurance Code and Christchurch earthquakes

2.1 One of the stated objectives of this review is to examine the adequacy of the code in the wake of the Christchurch earthquakes. The earthquakes had a major impact on the city and residents are continuing to deal with the aftermath. More than three years on, some are still waiting for insurance claims to be settled.

2.2 In 2012, Consumer NZ surveyed its Christchurch members to ask about the performance of both the Earthquake Commission and insurance companies in handling claims. Of the 321 members who provided information about their insurer, only 46 percent stated they were fairly or very satisfied with the company (see Table 1).

2.3 While 60 percent of respondents said they had been given a description of the overall claims process, just 27 percent had been kept informed of timeframes; 32 percent had received an approximate timeframe; and less than half (48 percent) had been assigned a case manager.

2.4 Poor communication was among the main problems reported. Many respondents said they found it difficult to get answers from their insurance company. Problems with claims managers were also reported. One respondent stated: "We have had four claims managers ... essentially we have to run through the same things each time we speak to them."

Table 1: Results of Christchurch member survey

INSURANCE COMPANIES	
INFORMATION	%
Description of the overall process	60
Approximate timeframe	32
Kept informed of timeframes	27
Assigned a case manager	48
SATISFACTION	46

Table guide: Shows overall satisfaction and % of respondents who stated they had received a description of the overall process, an approximate timeframe, were kept informed of timeframes, and had been assigned a case manager.

2.5 The earthquakes have highlighted the need for both the Earthquake Commission and insurance companies to develop better procedures for responding to any future serious natural disaster. Events in Christchurch were unexpected and major. However, it is at these times when consumers need to know their insurer can respond appropriately.

2.6 The Fair Insurance Code outlines insurers' basic obligations to consumers. For many of our Christchurch members and other consumers in the city, these obligations were not met following the earthquakes. For residents still waiting for claims to be settled, the code has provided little surety about what they should be able to expect from their insurer.

3. Need to improve consumer protection

3.1 Insurance is a significant cost for consumers and those costs have been increasing. The recent move to sum-insured house insurance has also effectively shifted more risk to consumers as homeowners are now responsible for estimating the rebuild cost of their dwelling.

3.2 In our view, consumer protection needs to be improved beyond the basic provisions of the Fair Insurance Code. We continue to receive regular inquiries and complaints from members about insurance. We also note that fire and general complaints comprised 61 percent of complaint inquiries to the Insurance and Savings Ombudsman in the 2012/13 financial year.¹

3.3 Complaints we receive often arise when people feel they have not been given adequate information by their insurer. For example, the extent of cover provided, changes in policy provisions, or specific exclusions may not have been made clear. Alternatively, headline statements may have led the consumer to believe cover was more extensive than actually provided.

3.4 While the code sets out insurers' obligations to provide clear and complete information, the complaints we receive and our own research in this area indicate that

¹ Insurance and Savings Ombudsman. (2013). *2013 Annual Report*, Wellington, New Zealand, p6.

the information being provided by insurers' does not consistently meet this test or consumers' needs.

3.5 Other gaps in consumer protection in the insurance sector have been recognised for some time. In 2004, the Law Commission proposed a draft Insurance Contracts Bill. Subsequent work by the Ministry of Economic Development resulted in proposals for legislation being put to cabinet in 2007. Changes recommended included codifying disclosure obligations and limiting insurers' right to avoid an insurance policy.

3.6 Legislation to enact these changes has yet to be introduced. However, non-disclosure continues to be a common issue in insurance disputes. The Insurance and Savings Ombudsman case notes indicate there have been 81 complaints relating to non-disclosure dealt with by the office in the last three years. Given public awareness of financial dispute schemes is low, this is likely to comprise a small proportion of actual cases.

3.7 While the Fair Insurance Code outlines basic disclosure obligations, continuing complaints indicate these provisions are not sufficient. Our view is that legislation is necessary in this area to protect consumers and restrict insurers' ability to void policies for innocent mistakes. We will be continuing to call for the Insurance Contracts Bill to be passed into law.

Thank you for the opportunity to make a submission on this review. If you require any further information, please do not hesitate to contact me.

Yours sincerely

Sue Chetwin
Chief Executive