

**Consumer Council
Submission to Panel on Financial Affairs
on Motor Vehicle Insurance**

1. The Council appreciates the invitation to submit its views on problems faced by the insuring public on motor vehicle insurance. The Council produced a report on the motor vehicle insurance industry in March 1992 in which it made a number of recommendations, including:

- a) increasing the product mix of insurance covers on offer;
- b) making the criteria used in setting loadings and excesses more transparent; and
- c) setting up pool insurance to underwrite unwanted business;

2. Having regard to recent complaints to the Council from consumers since that report, there were two more issues that arose:

- a) the level of premium; and
- b) application of the principle of 'betterment'.

Level of Premium

3. Premium levels raise issues of the product mix on offer, and how premium levels are calculated.

Product mix

4. As noted above, the Council has suggested to the Accident Insurance Association (AIA) in the past that association members should consider increasing the product mix of motor insurance to the public as a way of allowing more choice and in lowering premiums for different policies.

5. At present, most motorists can only choose cover for either

- a) Comprehensive damage; or
- b) Third Party damage

6. In theory, Third Party damage, Fire & Theft and ACT only (third party injury) should also be available for motorists. However, these covers are actually made available to a limited number of people. Such practice has been in existence for many years without modification, with the most popular cover for private vehicles being comprehensive. As the price of comprehensive cover continues to increase, the Council considers that a greater variety of insurance covers could be introduced to offer consumers more low cost options.

Premium calculation

7. With regard to premium calculation, the Council's 1992 report specifically noted that the practice of setting tariff rates by AIA was obsolete and unnecessary, and therefore should be abandoned. Notwithstanding the subsequent assurances that the agreed basic tariff rate setting was abandoned, in the absence of a general competition law prohibiting collusive conduct between competitors, motorists are still concerned that there is a some form of industry agreement that is raising general premium levels above a competitive market standard.

'Betterment' clause in car insurance policies

8. The Council has also received complaints from consumers regarding the principle of 'betterment' as it is applied in the industry. The principle of betterment requires that a consumer should not be indemnified for more than what the policy stipulates. The application of this policy has resulted in consumers being required to make additional payments when new parts are used to repair a vehicle and the insurer claims this has 'made the vehicle better'.

9. In discussions with AIA, the Council was concerned that:

- (a) consumers were largely being left uninformed as to how the principle applies;
- (b) when the principle is applied, they are left with the impression that insurers are taking advantage of the principle to reduce their exposure to loss; and
- (c) consumers had no information made available to them on how to minimize exposure to the principle.

10. The Council considered there were two courses of action the industry could take:

Transmission of information on 'betterment' principle to the consumers

- (a) Before taking out a vehicle insurance policy, the consumer should be specifically informed of the principle of 'betterment' by his agent or broker.
- (b) Insurers to insert a separate pamphlet in the insurance policy to disseminate the message of the principle of 'betterment' of claims on damage to clients, rather than rely merely on the small print in the contract.
- (c) Instructions should be given to relevant sales persons that the insured should be educated on calculating the sum insured, i.e. that it should be discounted with the age of the vehicle.

Minimizing the exposure to 'betterment'

- (a) A percentage of the vehicle value could be determined and agreed between the insurer and the insured as the sum insured.
 - (b) Whilst insurance loss assessors are the final arbitrators on betterment, the insurer should provide information to customers to assist them in reducing the risk of having the principle of betterment inadvertently applied, i.e. where possible the insured should insist on the use of second hand spare parts for repairs.
11. The industry is still considering the above suggestions on betterment. The Council has indicated it will assist in providing information to consumers through its educational and information dissemination activities, i.e. Choice magazine. For example by noting the different levels of competition where some insurers give reimbursement of the damage in full for a vehicle less than 1 year old; and recommending that car owners shop around.