

Chapter 2: An overview of insurance

2.1 What is insurance?

Most people hold different insurance products throughout their life for a range of reasons. In general, insurance is bought by consumers to provide them with protection in the event things might go wrong in the future.

Broadly, contracts for insurance are either a policy of:

- general insurance, which covers short-term risks of an individual (such as car and vehicle insurance, home and contents, travel and credit card)
- life insurance, which covers the long-term life risk of the insured (such as income protection and health insurance).

General insurance

For example:

- car and vehicle insurance
- home and contents
- travel and credit card



Life insurance

For example:

- income protection
- health insurance



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In either insurance product, an insurer estimates the liability of a consumer for a particular loss. The insurer then sets an amount or range of cover it is prepared to indemnify, considers what premium to apply to provide the indemnity and, finally, offers a consumer an insurance contract or policy based on these variables.

At its core, insurance pools the resources of a large number of people with similar risks to make sure that the few who experience loss are protected. In general insurance, pooling resources through the payment of a premium may allow a consumer to avoid paying the full cost of replacing, repairing, rebuilding or restoring valuable things if they are lost, stolen, damaged or destroyed.

In order to assess risk, an insurer or underwriter evaluates what likelihood there is of a risk occurring, which often considers actuarial and statistical data. Insurers also use this information to inform the premium price they are willing to charge when selling a policy. This can be a complex process that involves synthesising a range of information, particularly if the range of possible variables is wide, such as if someone is being insured for a long period of time.

When someone buys an insurance policy the insurer promises it will pay for the type of loss stipulated in the policy, by funding things like repairs or treatment, up to the limit specified in a policy. A consumer will only have access to the pool of money if they claim a loss that is covered by an insurance policy.

In Australia insurance has developed into a complex industry, characterised by:

- major insurers holding complex corporate structures with multiple subsidiaries
- insurers using commercial and contractual arrangements with third-party operators to promote and distribute their product across different platforms and industries
- 'white labelling' between brands, where an insurer re-packages the same product under a different brand profile.

Under the *Equal Opportunity Act 2010* (Vic), an 'insurer' is defined as a "person who is in the business of providing insurance policies".¹ Consistent with the beneficial purpose of the legislation, the Commission considers that each entity that issues, underwrites, or offers products of insurance is an 'insurer' under the Equal Opportunity Act.

2.1.1 EXCLUSIONS

In order for an insurer to manage risk, an insurer's policies may have different rules about what they will and won't cover, which is expressed as an 'exclusion'. The exclusions eliminate the insurer's responsibility to pay any claims relating to or arising from the exclusion that they are unwilling to insure. These might include accidents caused by an illegal activity, or risky activities such as skydiving.

These exclusions narrow the scope of coverage offered by the insurer.

These factors may make it difficult for consumers to understand what they are buying, what protections they have in place if something goes wrong and which company is ultimately their insurer.²

GENERAL EXCLUSION OR 'BLANKET' EXCLUSIONS

Many insurance policies now contain lengthy and complicated sections of general exclusions, including terms that refuse any cover for an entire category of risk (often referred to as 'blanket' exclusion conditions).

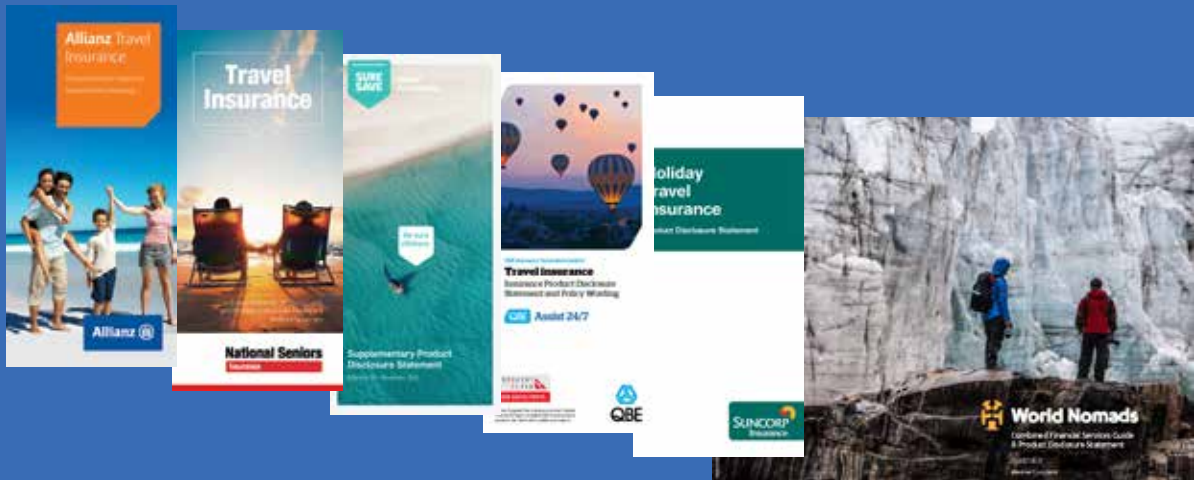
A typical blanket exclusion in relation to mental health may say: "we won't pay under any circumstances if ... your claim arises from or is any way related to a mental health condition".

PRE-EXISTING CONDITION EXCLUSIONS

Depending on the insurer and the insurance policy selected, a consumer may find that, if they have experienced a mental health condition before, they will also be separately excluded under another clause from any claim relating to their mental health as it would be considered a 'pre-existing condition'.

OTHER EXCLUSIONS

Exclusions may also be 'partially insurable', which accepts a limited indemnity for a risk, or 'insurable for a price', which requires the consumer to pay an additional premium to add specific coverage for a risk.



Examples of product disclosure statements

2.1.2 THE PRODUCT DISCLOSURE STATEMENT

Under Australian law, a financial services licensee (such as an insurer) must provide a consumer with a product disclosure statement (PDS), when it recommends or offers a financial product.³ The PDS document must include information about the product’s key features, such as its fees, commissions, benefits, risks and complaints handling processes.⁴

Many insurance contracts require a consumer to enter details about the length of time they need insurance for, what they need covered

\$110.6 million

profit for the Australian travel industry in 2017–18



25% of the travelling population were Victorian

specifically and, depending on the form of insurance, may require some information about their health. These details often help determine the scope and cost of the insurance. While these details form important specific terms of the contract between the consumer and the insurer, the finer points

of the contract of insurance's coverage are contained in the policy's PDS.

Accordingly, the PDS is the bedrock document for consumers to use when determining the quality, exclusions and coverage of their insurance policy.

2.2 Travel insurance in Australia

Travel insurance is a form of general insurance that offers an indemnity or coverage for travellers. Travel insurance policies often include terms that provide luggage insurance, travel delay and cancellation, and overseas medical insurance. Central terms of policies offered by travel insurers relate to a policy holder's health and medical coverage.

Travel insurers charge premiums for a range of insurance options, which are designed to provide coverage for unforeseeable and unfortunate circumstances that may happen during travel. Cancellation insurance and emergency medical insurance account for a significant portion of travel insurance industry revenue.⁵

Many industry operators sell their products through third-party agents, which are then retailed directly to consumers. Unlike other general insurance products, a large portion of travel insurance is sold through distributors and partner companies – such as Cover-More.⁶

2.2.1 TRAVEL INSURANCE BY THE NUMBERS

In the financial year ending 30 June 2018, the travel insurance industry in Australia recorded a \$110.6 million-dollar profit,⁷ and has experienced strong growth in the last five years due to the number of Australians travelling overseas.⁸

Victorians accounted for approximately 25 per cent of Australia's overall travelling population in the financial year ending June 2018.⁹

2.3 Travel insurers selected for Investigation

2.3.1 SCOPE OF INVESTIGATION

The Investigation sought participation in the Investigation from five different insurers, covering approximately 70 per cent of the total travel insurance market in Australia. Three insurers maintained clauses in policies that expressly ruled out cover for mental health conditions (blanket exclusion), and were asked to provide the information they relied on to offer insurance on these terms to the Investigation. The remaining two insurers had already removed the blanket exclusion terms and assisted the Commission with our inquiries.

Insurers that maintained clauses relating to mental health conditions

In accordance with its Terms of Reference, the Commission approached Allianz Australia Insurance Limited¹⁰ (Allianz), Suncorp Group Limited¹¹ (Suncorp) and World Nomads Group Pty Ltd¹² (WNG) three of Australia's leading insurers in the travel insurance industry.

The Commission requested that Suncorp, Allianz and WNG's participate in the Investigation based on each company's market share in the Australian travel insurance industry. The request was also informed by our assessment of the travel insurance products offered, with specific regard to the insurers' publicly available PDSs.

The Commission identified policies being sold by each of the three insurers between the period of 1 July 2017 to 19 April 2018 (the Investigation Period) that included apparently discriminatory terms. We asked these three insurers to provide the Commission with information they each relied on in order to lawfully discriminate under the Equal Opportunity Act.

MARKET SHARE OF TRAVEL INSURANCE IN AUSTRALIA

Zurich = ~30.8 per cent (including insurance sold via major distributor Cover-More)¹³

Allianz = ~25 per cent (including Allianz Global Assistance)¹⁴

WNG = ~11 per cent (market share of parent company nib will, from April 2019, include acquisition of former travel insurance business from QBE worth approximately 5.1 per cent of overall market share)

Suncorp = ~1 per cent¹⁵

QBE = ~5.1 per cent¹⁶ (Subsequently sold to nib, now part of WNG)¹⁷

Other = 27.1 per cent

Insurers that had removed the exclusion terms

The Commission also approached insurers QBE and Zurich, which had recently changed policies regarding mental health exclusions. We asked these insurers to assist the Investigation by explaining the reasons for the relevant changes to remove exclusions for mental illnesses from their PDSs.

The insurers were also asked to outline the measures they have taken to eliminate discrimination against people on the basis of a mental health condition, as required by the positive duty under section 15(2) of the Equal Opportunity Act.

2.4 Insurer profiles

2.4.1 ALLIANZ

Allianz's business

Allianz Australia Limited¹⁸ and Allianz Australia Insurance Limited¹⁹ (Allianz) are the Australian subsidiaries of the multinational company Allianz SE,²⁰ a European financial services company headquartered in Munich, Germany. In 2017 Forbes ranked Allianz SE as one of the world's largest insurance companies.²¹

In Australia and New Zealand, Allianz employs approximately 4300 staff and is headquartered in Sydney. Allianz's core operations include a mix of both general and life insurance products, such as car insurance, home and contents, small business and life insurance.

Allianz as a travel insurer

Allianz is one of Australia's largest providers of travel insurance in Australia.²² Public reports indicate that Allianz Australia's revenue from travel insurance operations has risen over the last five years and is expected to continue growing.²³

While Allianz does not issue and distribute travel insurance directly to consumers, Allianz underwrites travel insurance policies that are issued and distributed by its related body corporate, AWP Australia Pty Ltd, trading as Allianz Global Assistance (AGA).²⁴

The Commission notes that responses to the Investigation were prepared and provided by Allianz and AGA jointly.

Allianz holds partnerships with several well-known brands and institutions, including National Australia Bank (NAB), Citibank and HSBC. Allianz underwrites products sold through these institutions as either the institution's branded insurance, or sold as an Allianz branded product. Over the Investigation Period, Allianz sold a number of travel insurance products through its subsidiaries or third-party relationships.

ALLIANZ'S ASSOCIATED BRANDS

- Allianz Travel Insurance (Direct) (ATID)
- Zuji
- Wotif.com
- Webjet
- UniHealth
- STA
- Lastminute.com.au
- NAB
- Bank West

Allianz and AGA's participation in the Investigation is discussed in Chapter 6.

2.4.2 SUNCORP

Suncorp's business

Suncorp Group Limited (Suncorp) is an Australian company and a top 20 ASX-listed corporation, with 13,500 employees across Australia and New Zealand. It holds approximately 9 million customers on its books and approximately \$96 billion in assets.²⁵ Suncorp is one of the largest general insurance groups in Australia.

It offers a range of different financial products and services, including travel insurance. Many of these services and products are offered across several well-known brands.

Suncorp as a travel insurer

Suncorp offers several travel insurance products, most prominently through Vero Insurance, its flagship travel insurer, as well as through its other owned brands such as AAMI, GIO and Apia. AAI Limited underwrites these products.²⁶

SUNCORP'S ASSOCIATED BRANDS

- Suncorp
- AAMI
- GIO
- Apia
- Shannons
- Vero

Several products and services are also offered through Suncorp's third-party partners, such as Citibank.²⁷

Suncorp's participation in the Investigation is discussed in Chapter 5.

2.4.3 WORLD NOMADS GROUP

World Nomads Group's business

World Nomads Group Pty Ltd (WNG) was established in 2000 and provides services across over 130 countries and several international offices, including headquarter offices in Sydney, Australia. In 2015, WNG (and its subsidiaries including Cerberus Special Risks Pty Ltd (Cerberus)²⁸ and WorldNomads.com Pty Ltd) was acquired by nib holdings Limited (nib).

WNG provides ancillary insurance services, such as claims management and emergency assistance for insurance policies written in Australia and New Zealand. WNG travel insurance products are issued by Cerberus, which acts as an agent of certain underwriters at Lloyds. In 2018, nib acquired QBE's travel insurance business, QBE Travel, for \$25 million.²⁹

WNG and Cerberus as travel insurers

WNG is considered to be Australia's third largest travel insurance distributor³⁰ and is the insurance trusted by several travel brands including Lonely Planet and STA Travel.³¹

Cerberus travel insurance products are also issued by other entities.³²

CERBERUS'S ASSOCIATED BRANDS

- Travel Insurance Direct Pty Ltd (TID)
- World Nomads.com Pty Ltd (World Nomads)
- SureSave Pty Ltd (SureSave)
- Cheap Travel Insurance Pty Ltd (CTI)
- nib Travel Insurance Distribution (nib)

World Nomads Group's participation in the Investigation is discussed in Chapter 4.

2.4.4 ZURICH AND COVER-MORE

Zurich and Cover-More's business

Zurich Insurance Group is a multinational insurance group, which owns Australian based subsidiary Zurich Australia Insurance Limited (Zurich). In April 2017, Zurich purchased insurance distribution platform Cover-More for approximately \$741 million.³³ Zurich has underwritten Cover-More products since 1 June 2017.

Cover-More acts as an agent of Zurich under a binder contractual arrangement, which authorises Cover-More to provide a range of services including issuing policies, product design and claims management services.³⁴ In Australia, Cover-More operates its travel insurance business through two separate Australian Financial Services Licensees, Cover-More Insurance Service Pty Ltd and Travel Insurance Partners Pty Ltd (collectively, Cover-More).

Zurich and Cover-More as travel insurers

Zurich, through Cover-More, offers a wide range of travel insurance products.

ZURICH'S ASSOCIATED BRANDS

- Australia Post
- Cover-More Travel Insurance
- Medibank
- Flight centre

In June 2017, prior to Zurich's purchase, Cover-More publicly announced that it would begin to offer mental health coverage by removing general exclusions for mental health conditions in travel insurance policies it issued.

Zurich and Cover-More's participation in the Investigation is discussed in Chapter 7.

2.4.5 QBE

QBE's business

QBE Insurance Group Limited is one of the world's top 20 general insurance and reinsurance companies. QBE Insurance Group Limited's locally-based subsidiary is QBE Australia (QBE), a leading ASX-listed company and Australia's largest global insurer. It has more than 14,000 employees and provides a range of insurance products including lenders' mortgage insurance, car, travel and home insurance, as well as tailored industry cover for industries such as aviation and farming.³⁵

QBE as a travel insurer

In 2018, QBE held approximately 5.1 per cent of the overall travel insurance market share in Australia.³⁶ As noted above, the Commission understands that QBE was purchased by nib in late 2018 for \$25 million.

In April 2018, the Commission wrote to QBE requesting its voluntary participation in the investigation as a non-party insurer.

QBE chose not to participate in this Investigation. It advised the Commission it had determined to sell its travel insurance business and, on that basis, decided to not provide information to the Investigation.

While disappointed with QBE's lack of participation, the Commission acknowledges that its reason for choosing not to take part was reasonable.

The Commission will provide QBE with a copy of this report. We recommend that QBE considers whether there are any improvements it can make to its compliance with the Equal Opportunity Act. For example, by preparing an action plan that outlines the steps necessary to improve compliance with the Act in response to relevant information in this report.

Notes

- 1 *Equal Opportunity Act 2010* (Vic) s 47(2).
- 2 Senate Economic References Committee, Commonwealth of Australia, 'Australia's general insurance industry: sapping consumers of the will to compare' (2017).
- 3 See *Corporations Act 2001* (Vic) s 1012B, and Australian Securities and Investments Commission (ASIC), *Disclosure: Product Disclosure Statements (and other disclosure obligations)* (Regulatory Guide 168, October 2011).
- 4 ASIC Moneysmart, 'Product Disclosure Statement', *Glossary* (Web page, 10 May 2018) <<https://www.moneysmart.gov.au/glossary/p/product-disclosure-statement-pds>>.
- 5 IBISWorld, *Travel Insurance – Australia* (Market research report, June 2018) 11 ('*Travel Insurance – Australia*').
- 6 *Ibid* 8.
- 7 *Ibid* 3.
- 8 *Ibid* 4.
- 9 *Ibid* 16.
- 10 Australian Business Number 15 000 122 850.
- 11 Australian Business Number 66 145 290 124.
- 12 Australian Business Number 48 132 902 713.
- 13 *Travel Insurance – Australia* (n 5) 21.
- 14 Advised to be between approximately 22–25 per cent. Email from Allianz and AGA to the Victorian Equal Opportunity and Human Rights Commission, 28 February 2019.
- 15 Email from Suncorp to the Victorian Equal Opportunity and Human Rights Commission, 28 February 2019.
- 16 As at 30 June 2018.
- 17 Sale publicly announced 3 August 2018. Nicola Middlemiss, 'QBE sells travel insurance arm for \$25M' (3 August 2018) *Insurance Business Australia* <<https://www.insurancebusinessmag.com/au/news/breaking-news/qbe-sells-travel-insurance-arm-for-25m-107837.aspx>>.
- 18 Australian Business Number 21 000 006 226.
- 19 Australian Business Number 15 000 122 850.
- 20 Allianz, *About Us* (Web Page) <<https://www.allianz.com.au/about-us/>>.
- 21 Forbes, *The World's Largest Public Companies* (Web Page) <<https://www.forbes.com/global2000/list/>>. In 2017, Allianz SE was ranked number two of global diversified insurers in the Forbes Global 2000 list.
- 22 Advised to be between approximately 22–25 per cent. Email from Allianz and AGA to the Victorian Equal Opportunity and Human Rights Commission, 28 February 2019. Zurich, Australia's largest provider of travel insurance, currently holds approximately 30.8 per cent. On its website, Allianz notes that considers itself to be Australia's fourth largest providers of general insurance: Allianz, *About Us* (Web Page) <<https://www.allianz.com.au/about-us/>>.
- 23 *Travel Insurance – Australia* (n 5) 22.
- 24 Australian Business Number 52 097 227 177. Australian Financial Services License 24563.
- 25 Suncorp, *About us* (Web Page) <<https://www.suncorp.com.au/about-us.html>>.
- 26 Australian Business Number: 48 005 297 807. Australian Financial Services Licence 23230859. Letter from Suncorp to the Victorian Equal Opportunity and Human Rights Commission, 1 June 2018.
- 27 Suncorp, *Strategic Partners* (Web Page, 2019) <<https://www.suncorpgroup.com.au/about/partners>>.
- 28 Australian Business Number 81 115 932 173. Australian Financial Services Licence 308461.
- 29 Alice Uribe, 'Nib Holdings taps into travel "megatrend", acquires QBE's travel arm for \$25 million' (3 August 2018) *Australian Financial Review* <<https://www.afr.com/business/banking-and-finance/nib-holdings-taps-into-travel-megatrend-acquires-qbes-travel-arm-for-25-million-20180803-h13ia1>>.
- 30 nib, '2015' *Company History* (Web Page) <<https://www.nib.com.au/shareholders/company-profile/company-history>>.
- 31 World Nomads, *We are World Nomads* (Web Page) <<https://www.worldnomads.com/about>>.
- 32 Letter from WNG to the Victorian Equal Opportunity and Human Rights Commission, 24 May 2018, Appendix A.
- 33 Jordan Lynn, 'Zurich announces \$741 million acquisition' (12 December 2016) *Insurance Business Australia* <<https://www.insurancebusinessmag.com/au/news/breaking-news/zurich-announces-741-million-acquisition-58330.aspx>>.
- 34 Letter from Cover-More to the Victorian Equal Opportunity and Human Rights Commission, 17 May 2018.
- 35 QBE, *About QBE* (Web Page, 2018) <<https://www.qbe.com/au/about>>.
- 36 *Travel Insurance – Australia* (n 5) 22.