



Australian Securities and Investments Commission
2 Allsop Street
Canberra ACT 2601

Submitted by email: submission@financialliteracy.gov.au

15 November 2017

Dear Sir/Madam

National Financial Literacy Strategy Consultation 2017

Thank you for providing the Insurance Council of Australia (ICA) with the opportunity to input into ASIC's National Financial Literacy Strategy (National Strategy) for 2018 and beyond.

The ICA is the representative body of the general insurance industry in Australia. Its members represent more than 90 per cent of total premium income written by general insurers. ICA members, both insurers and reinsurers, are a significant and integral part of the financial services system.

ICA members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, business interruption cover, commercial property and directors and officers insurance).

The ICA supports a strong and comprehensive financial capability framework for Australia. To be effective, such a framework must adequately reflect the breadth of Australia's financial services landscape. It is therefore essential that the National Strategy extends beyond traditional financial literacy tools that largely focus on budgeting skills and credit management. Though such initiatives are important, the role of insurance should also be emphasised as an integral part of financial capability and sound financial decision-making.

ASIC has commented that it is imperative for Australians to understand how to manage money and financial risks effectively. The ICA agrees. In 2013 it launched Understand Insurance, a financial literacy and capability initiative supported by the ICA Board that aims to empower consumers to make well-informed decisions about their general insurance needs. The initiative is brand-free and seeks to provide information in plain English.

Supported by a strong social and traditional media presence, the program's website www.understandinsurance.com.au guides consumers and small business operators through the insurance process. It provides a variety of information from tips to school leavers wanting to purchase their first motor vehicle policy, to young families insuring their family home, through to retirees travelling overseas.

As well as providing information directly to consumers, it is also a useful resource for community advocates, governments, politicians, financial counsellors, insurers and brokers. The ICA considers there to be natural synergies between Understand Insurance and the National Strategy, and looks forward to continuing to work alongside ASIC in this regard.

The National Strategy consultation paper seeks feedback on a range of proposals and issues for discussion. Please find our comments below:

We propose to update the language of the National Strategy from 'financial literacy' to 'financial capability'. Do you agree with this proposal? Do you wish to comment further on this proposal?

The ICA supports the proposal to update the language to financial capability. Financial capability indicates a more holistic approach than financial literacy, incorporating not just the knowledge and skills needed for sound financial decision-making, but access to financial services, behavioural factors, social influences and more.

We propose to extend the timeframe of the next National Strategy to up to 10 years. Do you agree with this proposal? Do you wish to comment further on this proposal?

The ICA suggests that a 10-year timeframe is too long. It is important to support sustained action over time, and monitor longitudinal behaviour change. However this can be achieved while still having a National Strategy that is reviewed and refreshed every three to five years.

The pace of change within financial services, including developments in fintech, robo-advice and greater use of apps, may not be fully captured under a 10-year strategy. There are bound to be advances in financial services of which we are currently unaware, or have limited knowledge.

An appropriate balance could be to set overarching long-term guiding principles that govern a three to five-year program of work. The National Strategy could then be periodically assessed in line with these long-term objectives.

We propose that the 2018 National Strategy will emphasise the following core behaviours that support improved financial capability:

- a) Managing money day-to-day;*
- b) Planning for the future; and*
- c) Making informed decisions.*

Do you agree with this proposal? Do you wish to comment further on the proposed core behaviours?

The ICA supports these core behaviours and considers insurance an important aspect of each one. Though ASIC has identified protecting assets with insurance under the *managing money day-to-day* stream, general insurance is also crucial with regards to *planning for the future* and *making informed decisions*.

With regards to *planning for the future*, adequate insurance coverage is essential to mitigate potential future emergencies.

A survey of households undertaken on behalf of Understand Insurance found that only 1 in 20 respondents were confident that they could accurately estimate the value of their contents; 10 per cent thought their estimate was out by more than \$5000 and 35 per cent did not know.¹ The findings have helped inform the ICA's financial literacy strategy, which is seeking to help people better understand their risk and therefore plan accordingly.

Other Understand Insurance research, conducted in collaboration with Smartraveller in 2016 and 2017, reveals low levels of consumer understanding in relation to travel insurance.

In seeking to emphasise the core behaviour of planning for the future, the National Strategy could also encourage Australian's to consider their insurance arrangements and make sure they are adequately covered for unforeseen circumstances.

With regards to *making informed decisions*, the ICA has instigated several initiatives aimed at helping consumers better understand their exposure to hazard risks. Understand Insurance provides specific information on natural disasters including storm, bushfires, cyclones and floods, with information on how to prepare for these events and tips to ensure assets are covered. It also provides free home and contents calculators to help householders reduce the likelihood of being underinsured.

In addition to this, the ICA has also initiated an Effective Disclosure Taskforce to investigate ways to help consumers better understand the products they buy.

Consumers with a poor understanding of their risks will be hindered from making informed decisions about their insurance coverage. The ICA encourages ASIC to include as a core component, initiatives that prompt Australian households to understand and stay informed on hazard risks. The ICA would be more than happy to work alongside ASIC in this regard.

A number of priority audiences have been identified under previous National Strategies. What are the most important priority audiences for the 2018 National Strategy to focus on?

The ICA supports the National Strategy's target audiences, which include a focus on Indigenous Australians, people from culturally and diverse backgrounds, seniors and women.

Over the past three years, Understand Insurance has had a strategic focus on several of these audiences, often in partnership with other organisations including youth and women's advocates and the Department of Foreign Affairs and Trade's Smartraveller program.

Nonetheless, the ICA encourages ASIC to broaden its scope of priority audiences to other groups that may require specialised and more tailored financial capability tools.

In particular, the ICA draws ASIC's attention to householders and small business owners who live in high-risk areas that are overly exposed to natural disasters such as bushfires, cyclones and floods.

Exposure to such catastrophic events can be extremely stressful and place tremendous financial and emotional pressure on households. Holding adequate insurance is an essential

¹ Quantum Market Research, Insurance Council of Australia Home and Motor Insurance, April 2016

way of mitigating this financial stress. This was acknowledged in the 2010 Victorian Bushfires Royal Commission Report:

Community recovery after a disaster is impacted by the adequacy of insurance cover taken by individuals and businesses. When insurance cover is insufficient to allow for rebuilding, the recovery process will be stifled.²

The ICA has found that disasters can unfortunately expose not only the issue of non-insurance but also underinsurance. In the aftermath of disasters, distraught householders may find they have not purchased enough insurance cover to fully rebuild or replace their home and contents. They may be forced to borrow money, or sacrifice size and features to rebuild their home on a smaller budget. In some cases, they cannot afford to rebuild at all.

In a recent discussion paper by the Victorian Department of Health and Social Services (DHSS) it was recognised that both government and the community sector have an interest in making sure that communities are more resilient to emergencies, and members of the community are not pushed into poverty due to unrecoverable losses caused by an emergency.³

In this regard, the ICA encourages ASIC to partner with other government agencies, community groups and insurers, to form a financial capability strategy for communities living in high-risk areas.

In addition to the above, consideration should be given to renters as a priority audience for the 2018 National Strategy. DHSS found that renters rank high among the uninsured, with about 52 per cent having no contents insurance.⁴

Broadening stakeholder reach and engagement with the National Strategy

The ICA supports a comprehensive stakeholder engagement strategy that can facilitate broad reach. Effective stakeholder engagement can be achieved by partnering with federal, state, local council agencies, community organisations and industry associations. ASIC, as a key independent government body, is well positioned to facilitate this.

In addition, strategic stakeholder input could be achieved via the establishment of steering committees. Each committee could focus on a separate strand of the National Strategy and comprise of cross-sectoral representation. In effect, the steering committee would act in an advisory capacity, providing the National Strategy with access to a network of organisations with expertise and influence in specified areas.

² Victorian Bushfires Royal Commission Report 2010, Volume 2, Chapter 8 Relief and Recovery, p339.

³ Victorian Department of Health and Human Services, *Addressing non-insurance and underinsurance for emergencies in Victoria*, April 2017, p6

⁴ *Ibid.*, p5

Emerging opportunities and challenges

The ICA supports aligning the National Strategy with key initiatives such as the Financial Inclusion Action Plan (FIAP) program. There is undoubtedly an important nexus between financial capability and financial inclusion. The FIAP program is well placed to support this.

The ICA also supports the National Strategy aligning itself with initiatives seeking to respond to financial abuse. This is a matter that the ICA is taking seriously. As part of the Review into the General Insurance Code of Practice, the ICA is consulting on a family violence guidance document that encourages all insurers to have family violence policies in place.

In addition to these initiatives, and as discussed earlier, the National Strategy should seek to respond to the financial challenges experienced by those living in high-risk areas.

Research, measurement and evaluation

The National Strategy must be evidence-based and refined according to research outcomes. The ICA therefore supports the establishment of a strategic working group that consists of experts in the field of research and evaluation who can inform the National Strategy as it progresses.

It would be useful if, as research is conducted, the findings are collated and easily accessible online. A hub of research will help inform the initiatives that are being undertaken by other organisations.

Getting involved

Roadshows, forums and workshops around the country are a useful way of meeting directly with those working in this space and hearing from some of the targeted audiences that have been identified. In addition, the use of social media and working alongside local community groups are all ways ASIC could encourage more organisations to connect with the National Strategy and raise its profile.

The Insurance Council is grateful for the opportunity to provide its input into the National Strategy consultation process. If you wish to discuss any of the matters raised in this submission further, please do not hesitate to contact Fiona Cameron, General Manager Policy, Consumer Outcomes on 02 9253 5132 or fcameron@insurancecouncil.com.au

Yours sincerely



Robert Whelan
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