

JANUARY 2017

## 2017-18 pre-budget submission

Submission to Department of the Treasury

### ABOUT US

Set up by consumers for consumers, CHOICE is the consumer advocate that provides Australians with information and advice, free from commercial bias. By mobilising Australia's largest and loudest consumer movement, CHOICE fights to hold industry and government accountable and achieve real change on the issues that matter most.

To find out more about CHOICE's campaign work visit [www.choice.com.au/campaigns](http://www.choice.com.au/campaigns)

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## INTRODUCTION

Consumers are the single largest group impacted by economic decision making. CHOICE encourages the Federal Government to consider consumer needs as a priority when preparing the 2017-18 Federal Budget.

Consumer needs are particularly important for any budget initiatives which relate to health costs. Out-of-pocket health costs remain a major pain point for Australian households, with the majority of people worried about increasing costs of medication, medical services or health insurance. Health insurance is also the most complex market for Australians to navigate. Given the pressure these costs place on household budgets CHOICE strongly warns against budget measures that will reduce Australians' equitable access to quality healthcare.

Consumers can be better protected from poor-value health insurance products through action against junk insurance. Very low value health insurance policies and public hospital policies should be removed from the Australian Government Private Health Insurance Rebate and no longer provide exemptions from the Medicare Levy Surcharge. This would create clearer signals to consumers about products with adequate cover and abolishing public subsidies for products that do nothing to remove pressure on the public hospital system.

We also call for funding for initiatives to protect consumers in the finance sector. We recommend that funding is allocated for research into measures to improve consumer use and understanding of credit cards. Credit cards are a major household cost and measures to improve consumer engagement with this product could lead to significant savings for households as well as an overall reduction in the personal debt held by Australians.

Finally, Federal Government leadership is required to address the long-standing problem of unpaid loss in the financial sector. There remain numerous instances where a financial service provider has taken advantage of a customer – for example, by providing poor financial advice – and the customer has no recourse even with a finding from a court or determination from an ombudsman. Action is needed to address past loss as well as to create a stronger safety net for the future through a prospective last resort compensation scheme.

## 1. Health care

### The 2016-17 budget should contain rising health care costs

Health and medical costs, including out-of-pocket expenses and health insurance, have remained a major cost of living concern for a large group of consumers.

In December 2016, 70% of people were concerned about health and medical costs, making it the third largest concern after electricity and food costs.<sup>1</sup> This concern is spread evenly among age groups and genders. 55% of people said they are worried about the cost of seeing a General Practitioner (GP) and 63% are concerned about the cost of medicines. Australians also say that private health insurance is the market where it is hardest to find a product that suits their needs – harder than superannuation, mortgages and other insurances.<sup>2</sup>

People with private health insurance have faced high cost increases over the past few years with no or unclear gains. Long term analysis shows that the cost of private health insurance to Australian consumers has resulted in a 47.5% cumulative rise in premiums since 2009, including the 5.59% increase in 2016-17.<sup>3</sup>

People are looking for equitable access to quality health care. CHOICE strongly cautions against any budget measure that will negatively impact this.

### Junk health insurance policies

Consumers need action to help them better identify quality health insurance products. This can partially be achieved by ensuring that poor value products are not eligible for health insurance rebates or from exemptions from the Medicare Levy Surcharge.

CHOICE considers two types of policies as 'junk':

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<sup>1</sup> The December 2016 CHOICE Consumer Pulse survey was designed and analysed by CHOICE with fieldwork by The ORU conducted with 1025 consumers aged 18-75 years between 2 and 9 December, 2016. Final data has been weighted to ensure it is representative of the Australian population based on the ABS Census 2011.

<sup>2</sup> Ibid.

<sup>3</sup> See <https://www.choice.com.au/money/insurance/health/articles/health-premium-hikes-on-the-horizon-131115>

- Very low cover health insurance policies covering less than 10 Medicare Benefit Schedule (MBS) items (often including accident cover); and
- Public hospital policies that only cover procedures in public hospitals (although some items are fully excluded)

Junk policies can cover less than 1% of services available in hospital and do not cover treatment for some of the most serious illnesses, such as cancer treatments.<sup>4</sup> Junk insurance is problematic as consumers are often unaware that their policy excludes the vast majority of treatments and may only become aware when attempting to access treatment. Because of the extreme limitations of cover of these policies they do not reduce strain on the public healthcare system.

Given the very low value of these policies, and their inability to reduce strain on the public healthcare system, they should not be considered eligible for the Private Health Insurance Rebate or create exemptions from the Medicare Levy Surcharge. This should not be approached as a simple short-term savings measure but rather an opportunity to reinvest in quality healthcare for all Australians. In addition, any change should be carefully tested and modelled before it's implemented to make sure that it delivers the best outcomes for consumers.

## Funding for an independent comparison site

Australian consumers perceive the health insurance market to be extremely complex, while also believing there are significant potential benefits from switching policies. Against this, switching rates among existing policy holders are very low.

The only site where consumers are able to compare all available policies is privatehealth.gov.au. However, consumer use of this site appears to be limited, either because of a lack of awareness or ease of use. Other sites such as iSelect.com.au and CompareTheMarket.com.au compare only a fraction of policies and cannot be considered independent due to the influence of commission arrangements on which policies they feature.

Consumers need greater independent advice to understand and select the best policy for their requirements; to easily assess the value for money of their existing policy compared to other policies; and switch to a better value deal if one exists.

<sup>4</sup> See <https://www.choice.com.au/money/insurance/health/articles/junk-health-insurance>

## Recommendations

- That no budget measure leads to a reduction in Australian's equitable access to quality healthcare.
- Very low cover (junk) health insurance policies and public hospital policies are removed from the Australian Government Private Health Insurance Rebate and no longer allow exemptions from the Medicare Levy Surcharge.
- Funds are allocated to build and/or improve existing comprehensive private health insurance comparison tools that independently cover all policies available on the market.

## 2. Credit cards

In June 2016, CHOICE provided detailed feedback on credit card reform in response to Treasury's consultation paper *Credit cards: improving consumer outcomes and enhancing competition (May 2016)*. The consultation paper recommended a suite of reforms that, if designed and implemented effectively, would dramatically improve credit card users' experiences. Long-term, CHOICE expects that successful measures to improve consumer understanding and engagement with credit card products will result in greater competition in the sector, lowering exceptionally high interest rates and fees, and in consumers holding less high-cost personal debt.

Funding from the Budget should now be made available to test new approaches to credit card information provision and further refine the impact analysis.

### *Testing measures*

CHOICE supports consumer testing of the following measures suggested by Treasury:

- That issuers provide information on the annual cost of a consumer's credit card use and prominently display annual fees.
- That issuers clearly disclose in advertising and marketing material a card's interest rate and annual fee.
- That issuers provide information about potential savings from switching to lower-cost products.
- That issuers provide consumers with timely electronic notifications regarding the expiry of introductory offers and credit use.
- That issuers provide consumers with alternative payment tools and proactively contact consumers who are persistently making small repayments.

CHOICE requests that testing is planned in partnership with all key stakeholders including consumer representatives. CHOICE expects this testing to be led by the Federal Government, with an independent agency or consultant for support if required.

## Recommendation

- Appropriate funding is allocated to test measures to improve consumer understanding and use of credit cards.

### 3. Funding a compensation scheme of last resort

It is important that consumers can expect fair redress when a financial service provider breaks the law. There remain a number of instances where consumers have received a positive outcome through a court or ombudsman scheme like the Financial Ombudsman Schemes (FOS) but compensation has been not paid. A last resort compensation scheme is needed to provide redress to consumers with a positive ombudsman determination or court action who could not receive funds from the financial services provider or through insurance.

CHOICE urges the Federal Government to commit to covering retrospective costs for a last resort compensation scheme for consumers of financial services and to establish a funding measure for future costs as a way to fix past wrongs and to restore consumer trust in the financial system.

As at August 2016 the Financial Services Ombudsman (FOS) had 137 unpaid determinations. The total value of unpaid determinations was \$12.61 million, with interest and adjustments for inflation the value of uncompensated loss was \$16,629,929.56.<sup>5</sup> It is likely that there are a number of other consumers who have valid claims but have not gone through the FOS determination process as they've been informed is no hope of a determination being paid.

The 2017-18 Federal Budget could address both of these problems. First, the budget should provide a one-off grant of funds to cover the known uncompensated loss from FOS determinations. Second, the budget should set aside funds to establish a process to determine if other consumers should be eligible for compensation. Once this amount is quantified, additional funding measures should be considered.

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<sup>5</sup> See <http://www.fos.org.au/fos-circular-26-home/fos-news/unpaid-determinations-update/?sstat=365692>

Looking to the future, a compensation scheme of last resort should be established for any loss from future financial disasters. While the Australian Bankers Association (ABA) is currently working on this matter, it is slow to progress. Leadership from the Federal Government is required to establish any last resort scheme. Agreement on a funding mechanism is a crucial next step. The funding mechanism should reduce the likelihood of any consumer needing to use the scheme by requiring members of the finance industry to cover costs, with those posing the greatest risk to consumers contributing the most. As proposed by FOS, a small levy can be placed on Australian Financial Services License holders, based on risk of consumer harm, to cover any future unpaid compensation.<sup>6</sup> This should be administered as part of the industry funding model for ASIC and consumers should be required to have a determination from an EDR process or from a court in order to participate in this process.

## Recommendations

- The 2016-17 Federal Budget allocates \$16,629,929.56 to be granted to consumers with unpaid determinations from the Financial Ombudsman Scheme.
- That the Federal Government funds a process to determine other sources of valid unpaid claims.
- That a compensation scheme of last resort for the financial sector is established through a small levy on Australian Financial Services License holders, based on risk of consumer harm.

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