

Tuesday 14 March 2017

Manager  
Financial Services Unit  
Financial System Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

To whom it may concern

**RE: DESIGN AND DISTRIBUTION OBLIGATIONS AND PRODUCT INTERVENTION POWER**

Thank you for the opportunity to make a submission to the above paper. Our submission seeks to:

- (a) inform you about our organisation, and the unique nature of our “**Good Insurance**” program, which we believe exemplifies best practice for the intent of the proposed measures to (i) identify appropriate target markets for products; (ii) select distribution channels that are likely to result in products being marketed to the identified target market; and (iii) review arrangements with reasonable frequency to ensure arrangements continue to be appropriate.
- (b) communicate our support for the proposed measures, and make an additional proposal that the measures allow for a *concessional* approach (as distinct from outright exemption) to regulation which recognises that, where a product has a clearly and deliberately identified target market and appropriately aligned distribution model, the risk of mis-selling has already been effectively mitigated. A well-designed concessional arrangement would (i) reduce or eliminate the risk of inhibiting innovation through regulation; (ii) ensure that the burden of compliance, and evidence of compliance, does not overwhelm the intent and effectiveness of the program.

**ABOUT GOOD SHEPHERD MICROFINANCE**

Good Shepherd Microfinance is a world leader in financial inclusion products, services and advisory. We offer fair and affordable financial programs to Australians on low incomes, and advisory services with a global reach.

We work collaboratively with the corporate, government and community sectors to create people-centred programs that enable clients to realise their own economic wellbeing, as they define it themselves. This approach leaves clients feeling valued and in control of their finances and lives.

We’re guided by our mission to enable economic wellbeing for people with low incomes, especially women and girls, and by our values of human dignity, respect, social justice, audacity, compassion and reconciliation.

Our flagship product is the “No Interest Loans Scheme” (NILS), which is distributed through a national network of community providers and supported with operational funding from the Department of Social Services. We have also developed a number of other microfinance programs - including the Good Insurance program, which is the subject of this submission.

## GOOD SHEPHERD MICROFINANCE AND INSURANCE

In 2013, Good Shepherd Microfinance, with the support of NAB, released a discussion paper on insurance access for people on low incomes titled '[Covering the Essentials](#)'. We received feedback from a range of sources including insurers, community sector legal centres and government agencies highlighting a number of important issues and barriers impacting people on low incomes such as:

- consumer access to fortnightly payments
- the need for further industry research in certain areas (market size and distribution channels)
- an opportunity to focus on home contents insurance as 'low-hanging fruit'
- widespread concern about access to affordable and appropriate motor vehicle insurance

In 2014 the Centre for Social Impact and the NAB published a report, [Measuring Financial Exclusion in Australia](#). One of the report's findings was that almost 20 percent of Australians go without general insurance. Non-insurance leaves people unprotected should they experience a loss, preventing them from confidently building assets or having reliable access to a car. This is especially true for people on low incomes, as they are least able to absorb financial shocks or readily replace lost assets.

These two reports led Good Shepherd Microfinance to develop a business case to design insurance products specifically to meet the needs of people on low incomes. Our Good Insurance program was established in 2014 and has collaborated with Australia's two largest general insurers – Suncorp Group and Insurance Australia Group – to co-design new car and home contents insurance products that are designed to address barriers to entry into general insurance contracts, build trust and understanding of insurance and protect low income consumers with appropriate insurance products and fair contract terms.

### Good Insurance

People on low incomes are acutely vulnerable to financial shocks. Replacing essential items like computers and whitegoods or repairing a car, can cause financial hardship and significantly disrupt daily lives – often these items are simply too expensive to replace.

Our Good Insurance program works with Australia's largest insurance companies to create fair, affordable and simple insurance policies for people on low incomes. These products enable people to insure their household belongings or cars, so they're protected if things go wrong. If an insurance policy has been developed with Good Insurance, you know it has been designed for the customer, has affordable pricing and offers flexible payment options.

Good Insurance co-created Australia's first two insurance products designed for people on low incomes:

- **Insurance 4 That**, developed with Insurance Australia Group (IAG), is a single-item insurance solution. It provides an alternative to traditional contents insurance by enabling people to insure individual items and nominate the insured value of these items. It also gives customers the option to take out additional cover for portable items against theft anywhere in Australia, and comes with flexible payment options. [Insurance 4 That](#) is available from IAG online and was tested in pilot with 10 community organisations that are part of Good Shepherd Microfinance's national provider network in 2016. The learnings from the pilot were that the low premium for single items and the

ability to pay fortnightly or weekly were important product features for people on low incomes.

- **Essentials by AAI**, developed with Suncorp Group, allows customers to comprehensively insure their car, their home contents or both. Customers can also choose to pay premiums annually, or in monthly or fortnightly instalments, and use Centrepay to manage payments. [Essentials by AAI](#) is co-branded with Good Shepherd Microfinance has won six industry awards for innovation since its launch in September 2015.

Essentials by AAI is purchased by calling a Suncorp Group contact centre, who can provide quotes or make sales. In this sense, Suncorp is both the issuer and the distributor of the product. In addition, public awareness of the product is raised by referral activity undertaken by selected community organisations that are part of Good Shepherd Microfinance’s national provider network. We plan to expand “Essentials” referrals activity to the entire provider network nationally over the next 12 months. Referrals are also made from our growing network of [Good Money](#) stores, which are funded by the Victorian, South Australian and Queensland state governments, and which provide the full range of Good Shepherd Microfinance products and services to people on low incomes.

#### **Our referral activity**

Good Shepherd Microfinance does not seek to “sell” insurance. Our objectives are to address four fundamental barriers to insurance that we have identified, and that are discussed in detail below. We strongly believe that Good Insurance is an effective awareness-raising program that helps members of the community make more informed choices about insurance.

We see the NILS loan application process as a great opportunity to connect directly, at a community level, with people who may have limited financial resilience and capability. Accordingly, in our context, “referral” means that our providers, when appropriate, may embed a short conversation about insurance into the “financial conversation” that occurs when an individual applies for a NILS loan; and they may provide factual information about Essentials by AAI as being an insurance product specifically designed to meet the needs of people on low incomes, and provide brochures.

We have conducted provider training programs to ensure volunteers and workers have clarity with respect to the boundaries of the conversation, so that only factual information is provided, and that general or personal financial advice is specifically avoided. To further support this we are currently in the process of publishing and distributing an information card to all microfinance workers who are including insurance as part of the financial conversation, to reinforce this message.

Importantly, the expansion of this activity to the wider provider network will be achieved through the digitisation of the NILS loan application process, currently underway and funded by the Department of Social Services. This platform will allow us to provide specific scripts to microfinance workers for all aspects of the financial conversation, including insurance.

### **Insurance education and advocacy for people on low incomes**

In addition to product development, we have also been working on educational materials to help people on low incomes understand the risks of non-insurance and under-insurance.

In 2016 we published, in partnership with the Queensland government, our [Money Ready Toolkit](#), which addresses the issue of financial resilience in the face of natural disasters, for which general insurance is a fundamental requirement. For example, in Queensland one in three households has no contents insurance and one in 10 has no home insurance (2016 RACQ Household Cover Index).

We are also participating in the Victorian Government's project to develop a strategy to encourage Victorians to take up, review and update their household insurance and thereby increase their resilience to emergencies. In addition, we take opportunities to raise awareness of the Good Insurance program in other ways, such as our website, and through speaking opportunities with community organisations and universities.

### **PROPOSED MEASURES**

We fully support the measures proposed in your paper, because they fundamentally improve the position of the consumer with respect to their engagement with financial services in Australia. Our experience tells us that many Australians continue to buy financial services that may not meet their needs, and that may not be affordable or appropriate to their circumstances. It is this experience that led us to establish our Good Insurance program.

To borrow from the language in your paper, the Good Insurance program is specifically designed and intended to:

1. Identify appropriate target and non-target markets for their products
2. Select distribution channels that are likely to result in products being marketed to the identified target market
3. Review arrangements with reasonable frequency to ensure arrangements continue to be appropriate.

### **EXEMPTION POWER, AND CONCESSIONS**

We believe that our Good Insurance program already represents best practice with respect to the intent of the measures. For this reason, whilst we support the principal of enshrining exemption power in the measures, we don't anticipate a need to seek exemption from the measures once implemented.

On the other hand, we do see that there is an opportunity to expand the principle of exemption to allow for a *concessional* approach to the regulatory obligations that might be required where a product and its distribution model are already clearly positioned in line with the intent of the measures. In this scenario, the regulatory requirements could be made proportionate to the risk represented by a combination of product design and distribution - the less risk, the less the regulatory oversight needed.

From our perspective this would achieve two things: first, a reduced risk of unintended consequences of regulation, particularly in terms of stifling future product and distribution innovations; and secondly, a reduced risk of creating a compliance and compliance-evidencing regime that could prove too costly and burdensome for organisations such as ours, and those in our provider network, to bear. It is the case that many microfinance workers in our provider network are volunteers, giving freely of their time to assist people seeking a NILS loan. It is also the case that the community organisations they work for are typically stretched for resources, and can ill-afford to invest in the kinds of systems that may be required to demonstrate compliance with the expectations of distributors as outlined in your paper.

We propose that consideration be given to creating a concessional approach to the measures, to allow for the crafting of regulatory obligations that are proportionate to the level of risk inherent in the product and its distribution model.

#### **IN CLOSING**

Thank you for the opportunity to make a submission in response to your paper. Please contact myself or our General Manager – Innovation and Marketing, Renee Hancock, on 03 9495 9624 if you would like to discuss our work further.

Yours sincerely



Adam Mooney  
Chief Executive Officer