

19 March, 2018

Mr Peter Harris  
Presiding Commissioner  
Competition in Australia's Financial System Inquiry  
Productivity Commission  
4 National Circuit  
BARTON ACT 2600

**Via email: [financial.system@pc.gov.au](mailto:financial.system@pc.gov.au)**

Dear Mr Harris,

PetSure Australia Pty Ltd (**PetSure**) appreciates the opportunity to comment on the Productivity Commission (**the Commission**) Draft Report dated January 2018, *Competition in the Financial System (the Report)*.

PetSure acknowledges the important work of the Commission in reviewing competition in Australia's financial system with a view to improving consumer outcomes, the productivity and international competitiveness of the financial system and economy more broadly, and supporting ongoing financial system innovation, while balancing financial stability objectives.

We welcome the Commission's draft recommendations to achieve these objectives in the general insurance sector through measures such as disclosing the previous year's premium on insurance renewal notices, the phasing out of distortionary insurance taxes, and extending the ASIC regulatory sandbox to enhance product innovation.

However, we are concerned about the likely impact of Draft Recommendation 11.2 made by the Commission to "improve transparency on insurance underwriting" by way of listing other brands on insurance brands' websites. If implemented, we believe that this may in fact:

1. Have a detrimental effect on competition in the market (and specifically, the pet insurance market), by impacting the viability of smaller lesser-known brands and brand partners who distribute products through other channels (such as vet clinics);
2. Adversely impact on pet insurance as an emerging market category where product innovation is still evolving and consumer need is still developing with only 6% of Australian cat and dog owners holding a policy (in contrast to more established categories, such as home and motor insurance, where consumer need is already well accepted);
3. Create a risk of detrimental consumer outcomes by steering consumers towards other products that they may not be eligible to purchase, or other products that may be less suitable or less beneficial to them; and
4. Lead to confusion about the identity of the issuers of financial products in circumstances where a brand promotes or distributes multiple classes of financial products.

We ask the Commission to consider these issues, and also the impact of other proposed regulatory changes, particularly the proposed product design and distribution obligations set out in the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Exposure Draft Bill 2018*.

## **Pet insurance market in Australia**

PetSure is a wholly owned subsidiary of The Hollard Insurance Company Pty Limited (**Hollard**), and designs, prices, arranges and administers pet insurance for companion pets in Australia, pursuant to a binding authority with Hollard.

Hollard was the first insurer to offer specialised insurance for dogs and cats in Australia. Petsecure, PetSure's oldest proprietary brand, commenced operations in Australia in 1999. In its capacity as an underwriting management agency, PetSure provides a wholesale offering to a number of brands in the Australian market. Each of these brands selects different products (for which they pay a wholesale price) and establishes their own marketing and pricing strategies for these products.

PetSure, in its capacity as a pet insurance administrator and as the holder of its own Australian financial services licence, is not restrained to administering Hollard-issued products only, and is currently exploring other opportunities in the market to complement its existing product offering.

We are proud of the work we are doing to promote responsible pet ownership in Australia. Industry data shows that Australians spent \$3.4 billion on veterinary expenses over the 2017 to 2018 financial year, with these expenses forecast to grow at 2.4% per annum in the next five years<sup>1</sup>. With no Medicare for pets, and no regulatory infrastructure around medical treatment costs, pet insurance is providing peace of mind for Australian consumers to care for their animals responsibly by covering their veterinary treatment costs. This being said, pet insurance is a relatively new category, with the vast majority of Australian cat and dog owners (over 94%) not taking out pet insurance.

Nevertheless, we consider that consumers are increasingly identifying the benefits in holding pet insurance as an important risk management tool. We currently process 70,000 claims a month, and last financial year paid circa \$90 million in claims.

We have facilitated (and continue to facilitate) the expansion of the market by our heavy investment in technologies which have made it easier for our policyholders to claim (including e-claiming at veterinary practices), and also by our establishment of advanced and unique infrastructure around product, pricing and disclosure. Our investment in these processes in fact made it easier and quicker for other entrants to enter the market, as they can leverage off the infrastructure we have already established. We note that the RACQ and RAC WA products and a proposed new Insurance Australia Limited product are very similarly structured to some of our products (that is, the same perils, exclusions, level of cover and sublimits) and we are also currently in discussions to provide claims administration platforms for other market participants.

We anticipate that the pet insurance market will continue to grow exponentially due to increasing advocacy by the veterinary profession and increased awareness of consumers about the existence and value of the category, both of which we have been integral in driving. This in itself will create a more populous market where existing providers of other product classes may look to provide a more holistic offering to their existing customer base, and new specialist providers may also enter the market.

## **Our comments on Draft Recommendation 11.2**

### ***1. Impact on competition in the market***

#### *(a) Adverse impact on specialist brand partners*

We note that the Report states that 20 brands in the pet insurance market are issued by Hollard. We note that there are in fact 23 pet insurance brands currently issued by Hollard, plus an additional 4 brands which are in

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<sup>1</sup> Source: IbisWorld Industry Report M6970 *Veterinary Services in Australia*, February 2018

“run off” (that is, there are still existing policies but no new policies are being issued). Annexure A contains a list of our current brands.

Of these 27 brands, only 2 of them are, in fact, owned by either Hollard or PetSure, and they hold a minimal number of all policies in force (2% combined). Ownership of the brands vests in the particular brand partners, who each have a distinct market presence and work hard to innovate product benefits and features to appeal to their specific markets. In essence, this means that they are in competition with each other.

Some of our present brand partners are market leaders in other areas, such as health insurance, supermarkets and pet product retail. By contrast, some of our other brand partners (such as Pet Insurance Australia and Bow Wow Meow) are small family businesses which are solely or predominantly involved in the distribution of pet insurance as their business activity.

We are concerned that the implementation of Recommendation 11.2 would adversely impact on competition in the market particularly for those brands in the latter category. By requiring these brands to list ‘big’ and ‘household name’ brands on their websites, we are concerned about the likely impact of programmed or routine consumer behavior, whereby consumers are subconsciously drawn to the ‘name’ brands, who are able to invest more heavily in marketing and brand awareness. As such, an unintended consequence may be a lessening of competition in the area if the smaller and more specialist brand partners become less viable.

(b) *Impact on pet insurance as an emerging market category*

We also ask the Commission to consider our comments above about our role in developing and expanding the pet insurance market.

The implementation of Draft Recommendation 11.2 would have a different impact on pet insurance (as an emerging market) than it would on more established insurance categories (such as car and home insurance). Consumer knowledge of market participants in more established categories is more advanced, and the brands are generally established household names. In contrast, the pet insurance market is still in its infancy in Australia and consumer knowledge and understanding of the products and the brands is still growing. We are concerned that smaller and newer brands may be unfairly penalised as a result of this Recommendation being implemented.

In addition, we also consider that it would be unfairly onerous for brands (and particularly those smaller and more specialist brands) to have to continually monitor and update their websites to list competitor brands.

(c) *Impact on brands using other distribution channels*

We are also concerned about the impact of Recommendation 11.2 on our other brand partner products and distribution channels which may not necessarily be online.

44% of all our new product sales are via distribution channels which are not online (either via phone or through brand partner branch offices). For some of our brand partners, online distribution is very low (for example, 11% for Australian Seniors Insurance Agency and 22% for Petsecure). For some of our major brand partners, such as RSPCA, online distribution only accounts for 31% of all sales, with distribution also occurring over the phone and via iPad kiosks in RSPCA shelters.

We are also currently in the process of introducing a new distribution channel via veterinarian practices, which will involve a unique and new product offering and ‘added value’ through expert clinical advice.

Listing brands on a website would give consumers the misleading impression that competition in the market is more limited than it actually is. It would also potentially have a detrimental effect on competition in the market by omitting brands issued via other channels.

## **2.Risk of detrimental consumer outcomes**

### *(a) Consumers being steered towards unsuitable products*

We note that the Report refers to the financial services sector containing “a blizzard of barely differentiated products” and states that “white labelling as a practice does not offer different features, just proliferation”.

We consider that our products do not fall into this category because we provide a differentiated product offering, where our product features vary (sometimes significantly) as a result of our brand partners’ target markets, distribution channels and consideration of other products they offer (where relevant). Different product, marketing and pricing strategies.

Some examples of these points of differentiation are as follows:

- Senior pet products
- Dental care add-ons
- Indoor cat cover
- Alternative therapy cover
- Cheaper, lower cover products vs high-end luxury products.

The consequence of implementing Recommendation 11.2 means that these points of differentiation will not be adequately brought to consumers’ attention. Consumers will be encouraged to visit websites where they may not be eligible for cover and/or the cover they are seeking is not provided or not suitable for their needs.

We have used hypothetical case studies to illustrate the issues we have flagged which may lead to possible detriment for the market and/or consumers.

#### CASE STUDY 1

Consumer has picked up a brochure at their local Petbarn store advertising accident and illness pet insurance cover for their 10 year old dog. The consumer then goes home and accesses the Petbarn website to look at the PDS and learn more about this cover. The consumer then sees a list of other brands. However, 18 of these brands do not offer accident and illness cover for senior pets. The consumer spends a lot of time accessing these other brand websites, and becomes frustrated and confused.

#### CASE STUDY 2

A consumer (who is also a pensioner) sees an advertisement for insurance cover for her indoor cat with [petinsurance.com.au](http://petinsurance.com.au).

She decides it would be good to be able to get some cover in case her cat gets injured or ill. She does not want to pay too much because her cat is very quiet and never goes outside, and just wants to have some extra help to pay for vet bills if her cat gets sick or has an accident. She goes onto the [petinsurance.com.au](http://petinsurance.com.au) website to get a quote for indoor cat cover but then sees a list of other brands – Bupa, a brand she recognises, catches her eye. She accesses the Bupa website and ends up purchasing a comprehensive pet insurance policy with \$20,000 of annual cover, with additional covers such as dental coverage and alternative therapy coverage. The policy costs the consumer \$800 rather than the \$220 that the [petinsurance.com.au](http://petinsurance.com.au) policy would have cost her (with \$5,000 worth of cover, which is all that she needed for her indoor cat).

(b) *Consumers being steered towards less beneficial products*

Brands may also choose to offer discounts to their customers, such as loyalty discounts or multi-product discounts for those who hold other products distributed by the brand partner. Consumers who proactively access a brand partner's website to purchase pet insurance may miss out on these discounts if they then are directed to look at other websites.

(c) *Proposed product distribution obligations*

We ask the Commission to consider these points in light of the proposed obligations of product issuers set out in the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Exposure Draft Bill 2018*. Relevantly, this will require issuers of financial products to:

- identify target markets for their products, having regard to the features of products and consumers in those markets;
- select appropriate distribution channels; and
- periodically review arrangements to ensure they continue to be appropriate.

We are concerned that Draft Recommendation 11.2 is potentially inconsistent with these obligations, as brand partners would be directing their 'target' market to other brand partners who may not provide a suitable or comparable product (in terms of features and/or price).

### **3. Risk of consumer confusion**

Some of our brand partners distribute other types of general or life insurance products online, such as travel insurance, car insurance, and term life insurance.

We are therefore concerned that Draft Recommendation 11.2, if implemented, would require these brand partners to have separate listings on their websites of brands that distribute these various products. This creates a real risk of consumer confusion about which other brands distribute a certain product.

### **Our comments on other Draft Recommendations**

#### **1. Draft Recommendation 11.1 Comparative Pricing Information on Insurance Renewal Notices**

Draft Recommendation 11.1 is that "Renewal notices for general insurance products should transparently include the previous year's premium and the percentage change".

We note that this recommendation is consistent with the recommendations made by the Senate Economics Reference Committee following its inquiry into Australia's general insurance industry. The Insurance Council of Australia has also indicated that this is industry best practice (see 2017 Interim Report of its review of the General Insurance Code of Practice).

We are in the process of implementing disclosure of previous premium information on our renewal notices as part of our commitment to industry best practice.

#### **2. Draft Recommendation 11.3 - Phase out Distortionary insurance taxes**

We welcome this Draft Recommendation to phase out state and territory taxes and levies on general insurance from mid-2018 (as long as there is an adequate transition period to enable the changes to be accurately implemented via systems). This will result in a cheaper outcome for consumers, and will also reduce ambiguity around how taxes and levies apply to distinct items such as collection fees.

***Information Request 4.1 - ASIC's Regulatory Sandbox***

We also seek to provide our comments on the Commission's request for information on whether the ASIC regulatory sandbox should be extended to enable prudentially regulated entities to test the issuance of products (noting that the existing ASIC sandbox, and the proposed extension through legislation, is limited to the testing of product distribution and the provision of advice). We support such an extension, and believe that this will promote product innovation, even more differentiation and further competition in the sector. This will also help to promote compliance with the proposed product distribution and target market obligations.

If you have any questions or comments in relation to our submission, please contact me

We would also welcome meeting with the Commission to discuss the points we have raised.

Yours sincerely,

Alexandra Thomas  
Chief Executive Officer

**Appendix A – List of pet insurance brands issued by Hollard and administered by PetSure.**

1. RSPCA Pet Insurance
2. Medibank Pet Insurance
3. Woolworths Pet Insurance
4. Bupa Pet Insurance
5. Petbarn Pet Insurance
6. Australia Post Pet Insurance
7. Australian Seniors Pet Insurance
8. Pet Insurance Australia
9. Bow Wow Meow Pet Health Insurance
10. Petinsurance.com.au
11. Guide Dogs Pet Insurance
12. Bondi Vet Pet Insurance
13. Mipet Insurance
14. Petsecure Pet Insurance
15. Real Pet Insurance
16. HCF Pet Insurance
17. Prime Pet Insurance
18. Petmed Pet Insurance
19. PROSURE Pet Insurance
20. Insuranceline Pet Insurance
21. 1300 Pet Protect
22. Guardian Pet Insurance
23. HIF Pet Insurance

Run Off:

24. Manchester Unity Pet Health Insurance
25. Perfect Partners Pet Cover
26. AFS-Petmed
27. Vets Own Pet Health Insurance