TITLE: **Lower cost, lower cover**

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The govt should focus on reducing the profit margin of insurance companies, not reducing the quality of cover

There aren't many people who, after 12 months of incident-free driving, focus on the money they wasted insuring their car against an accident that never happened. Similarly, on returning safely from an overseas holiday, there aren't many travellers who wish they had got better ''value for money'' from their travel insurance policy. Insurance is one of the few products people buy in the hope they won't need it.

But humans are a contradictory species. While we willingly spend billions of dollars per year insuring against unlikely events, we like to get a bargain while we are at it. Indeed, our television screens are full of advertisements encouraging us to shop around for cheaper insurance. The irony of course is that all that advertising is one of the reasons insurance is so expensive, but where would the marketing industry be without irony?

Canberra's elected representatives are currently wrestling with the fundamental contradiction in our attitudes to insurance; namely, we like having it even though we probably won't use it, we would like it to be cheap, and we are more persuaded by clever ads than by careful examination of what is being offered.

The role of insurance companies is to make money for their shareholders. Luckily for them, most people who pay them for insurance each year have very little chance of getting any money back, which makes for a very lucrative industry.

Of course, sometimes insurers have to pay out a lot of money in the one year, for example after a natural disaster. But then again, insurance companies tend to have a much better understanding of the fine print in their policies than the people who ring the friendly helplines chasing cheaper insurance. The insurance company's detailed understanding of, for example, the difference between flood damage and storm water damage often means they don't have to pay out nearly as much as their customers might have thought.

Which brings me to the ACT government's proposal to reduce the price of compulsory third party insurance. Despite having the highest average income in Australia, and despite the fact that Australia is now one of the wealthiest countries in the world, the cost of living is, according to the ACT Liberals, the biggest problem facing Canberrans.

It apparently follows that if the opposition expresses concern about the cost of living the government should respond by reducing the price of compulsory third party insurance. Having taken the opposition's bait, there are two obvious paths available to the government: reduce the profit per customer being made by the insurance company or reduce the quality of the insurance cover being provided. Unfortunately, the government has sided with the insurers and seems to be betting that no one will read the fine print that comes with their cover.

The whole point of compulsory third party insurance is to protect citizens from the harm done to them by other drivers. Put simply, if someone else ploughs through a stop sign and smashes their car into you CTP is designed to cover your costs. But, of course, the fewer of your costs that are covered the cheaper the CTP insurance can be. Which is where the fine print of the ACT government's proposal starts to get interesting. At the moment citizens are covered for both the economic costs of an accident as well as pain and suffering, but if the government and insurers get their way there will be no compensation for pain and suffering if there is permanent injury to less than 15 per cent of your body.

What this means is that a person who has their ankle destroyed by a reckless driver, a person who may never walk properly again, will receive no compensation for the pain and inconvenience of walking with a limp for the rest of their life. Similarly, if a person is facially disfigured then once their medical costs are covered they may receive no compensation for the emotional costs of going through life looking like a different person.

Most people like a bargain, but most people also like to spend each year on insurance they hope they won't use. The emerging field of ''behavioural economics'' does not call people ''irrational'' the way neoclassical economists would. Rather, such behaviour is increasingly seen as the norm rather than the exception. Just as many people simultaneously buy chocolate and join gyms, many people complain about petrol prices while buying bigger cars.

In such situations governments can throw up their hands or they can take responsibility to ''nudge'' people into making the most socially desirable decisions. It's not hard to lower insurance premiums by reducing the quality of cover; indeed, the insurance companies do that all the time. But it is not helpful either, especially for the unfortunate minority of people who will wake up one morning to learn how important the fine print of their CTP insurance really is.

A recent analysis in NSW, reported in the *Sydney Morning Herald* on July 20, found that insurance companies were systematically gouging citizens and setting premiums well above that required to cover their costs and make a fair profit. If the ACT government wants to deliver a better deal for citizens it should focus on lowering the profit margin received by insurers. And if the opposition is really worried about the cost of living it too should stop pretending there are simple solutions and focus instead on the costs of living with permanent disability.

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