



11 April 2019

ACCC Northern Australia Insurance Inquiry

Submitted by email: [insurance@acc.gov.au](mailto:insurance@acc.gov.au)

Insurance Australia Group (**IAG**)<sup>1</sup> welcomes the opportunity to make a submission on the ACCC's draft recommendations set out in the first Interim Report of the Northern Australia Insurance Inquiry.

IAG's purpose is to make your world a safer place and as such we believe this Inquiry provides an opportunity to discuss the crucial role that general insurance plays in helping individuals protect the things they value, and the benefits that general insurance provides to the government, economy and communities, particularly when recovering from disasters, accidents and financial loss.

IAG welcomes the opportunity to discuss anything raised in this submission. Please contact Marcus Taylor, Executive Manager, Regulatory Management, on 07 3337 8664.

Yours sincerely

Stephen Marshall  
EGM, Product & Pricing

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<sup>1</sup> IAG is the parent company of a general insurance group, with operations in Australia and New Zealand. Our businesses sell insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI in Australia; NZI, State, AMI and Lumley Insurance in New Zealand. Our purpose is to make your world a safer place, which means we are working to create a safer, stronger and more confident tomorrow for our customers, partners, communities, shareholders and our people throughout Asia Pacific.

## Draft recommendations

### Draft Recommendation 1: Insurers should estimate a sum insured for customers

IAG supports effective measures that materially reduce the incidence of unintended underinsurance among consumers. IAG does not believe this draft recommendation would achieve this.

We believe that consumer behavioural research should be conducted with the aim of understanding the reasons for underinsurance.

We believe a better, more effective approach is to educate consumers about the risks of underinsurance. As this draft recommendation suggests, this could be done by informing a policyholder to contact the insurer if their circumstances have changed since their last renewal (e.g. if they have made improvements to their home). Further, the renewal notice could also include a warning to the policyholder about the dangers of their property being underinsured, with a reference to a link to some examples of the consequences of underinsurance. Alternatively, a link may be provided during the quoting process that provides some examples of what would happen if a customer underinsures their home.

While underinsurance may arise due to a lack of knowledge on the part of a consumer not knowing the actual cost of replacing the insured asset, it is also important to recognise that some customers consciously elect to reduce cover to reduce their premiums. We note, the ACCC has also recognised the tension that exists between avoiding potential underinsurance by increasing sums insured, and the resulting impact on the affordability of insurance (especially in parts of the country where premiums are already relatively high). The ACCC acknowledged that consumers are likely to prefer to underinsure their homes if it means being able to afford insurance at all.<sup>2</sup>

In addition, we are concerned that estimating an updated sum insured and advising our customers of this estimated sum may amount to the provision of personal financial product advice (which would require an additional authorisation and trigger disclosure obligations for personal advice).

### Draft Recommendation 2: Prominently publish PDSs and KFSs online with product offerings

IAG supports the ACCC's intent in this draft recommendation to increase the level of awareness for customers around the availability of key facts sheets (**KFS**) and product disclosure statements (**PDS**) as part of the process of purchasing insurance. IAG currently makes its KFSs and PDSs available online and accessible prior to the commencement of the quoting process.

However, we believe more guidance is required on the meaning of 'prominent manner', including guidance on positioning the relevant link to the KFS and PDS so that there is consistency across all insurers in how this information is presented to customers. In our view, providing this consistency should improve the overall customer experience.

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<sup>2</sup> Northern Australia Insurance Inquiry First interim report November 2018, page 161.

We also believe this guidance should be informed by consumer behavioural research, and not be based on assumptions about the impact of the positioning on customer behaviour.

### **Draft Recommendation 3: Disclose premium impacts of optional inclusions or exclusions**

IAG supports greater meaningful transparency that effectively permits consumers to make better informed decisions. IAG believes the draft recommendation would **not** achieve this intent and could result in adverse outcomes for consumers.

We believe an adequate solution already exists in the form of online quoting facilities that allow consumers to freely and intuitively interact and experiment with the options (together with the sum insured and excess) available to them. They enable consumers to explore the impact those options have on price, while simultaneously having information on levels of cover to suit their needs. We believe this is a far more practical and effective means of achieving the intent of the draft recommendation and leads to less confusion (particularly for those consumers who don't want or value, or have difficulty engaging with, the added disclosure on quotes and renewals).

A core assumption of this draft recommendation is that more information presented upfront in the manner described will lead to a more informed choice on the part of the consumer, and improved decision making. In our view, the provision of more information (as set out in this draft recommendation) would involve the disclosure of numerous combinations which may not be helpful to consumers. In fact, we believe the provision of this information may cause confusion, particularly as they already have a considerable amount of information to think about.

As such (and to test the core assumption), we believe that consumer behavioural research should be conducted with the aim of understanding the impact of any proposed disclosure reforms on consumer decision making in the context of information they already receive.

We have also identified the following potential risks associated with this draft recommendation:

- It will promote the wrong behaviour by emphasising price rather than educating consumers on the insurance they require. Further, communicating potential premium savings as a result of reducing the sum insured may lead to underinsurance;
- By having to display the combinations of options / sum insured / excess upfront, insurers may be encouraged to reduce their range of coverage to simplify the communication to customers. This could reduce the options or choices available to customers and therefore reduce the ability for customers to obtain cover that reflects their needs. The risk of underinsurance could be exacerbated consequently; and
- The premium cost or saving for each option may not be independent. For example, the impact of changing excess levels may be greater for higher sum insureds than lower sum insureds. Again, this may be confusing to customers and detract from clear decision making.

### **Draft Recommendation 4: National home insurance comparison website**

IAG does not believe comparison websites provide the best possible consumer outcomes. We refer to the following in support of our view:

- IAG's [submission](#) to the ACCC's Northern Australia Insurance Inquiry [Issues Paper](#) which highlighted our concerns in relation to comparison websites (see pages 28-30); and
- the Senate Economics References Committee's [Report](#) 'Australia's general insurance industry: sapping consumers of the will to compare - August 2017' (see pages 43-62) which

looked at the utility of comparison services as a tool for enhancing the comparability of home, strata and motor insurance products.

IAG's concern in relation to comparison websites is that they would primarily emphasise price rather than educate consumers on the insurance they require, the coverage provided by the various products compared and the steps they can take to mitigate their risks. In these circumstances, consumers may choose the cheapest cover without understanding all the terms and conditions associated with the cover, potentially exacerbating underinsurance or not taking out cover or benefits they need. This is consistent with international experiences, including in the UK where (according to the Insurance Council of Australia) car and home insurance product offerings have focussed on price over policy features<sup>3</sup>.

In addition, any effective and appropriate comparison service would require a level of information about the individual consumer that would defeat the intended purpose. This is attributable to the fact that the ultimate quote or premium for an individual can be influenced by several factors such as years of loyalty, level of excess, level of coverage, geographical location and other pricing factors such as claims history.

There are also several issues associated with comparison websites that evaluate product features:

- How should product features be described in a way that would allow a consumer to make easy and accurate comparisons?
- Who would assess and describe the features for comparability?
- Will the manner in which the features are described and categorised limit innovation by insurers?
- Will the features be described in full, or just the primary features?

One key challenge is around how changes made by insurers will be communicated / integrated into the centralised website. This process may introduce delays and additional costs.

In addition, the inclusion of contents insurance would add significant complexity to an already complex approach. Most contents products include a variety of optional covers such as portable valuables, jewellery, collectables, etc. The technical requirement to accurately, consistently and simply display these assorted options and associated premiums, alongside the 'base' cover and premium, for multiple insurers would be complex and costly to deliver and maintain.

In relation to live quotes, we believe any live pricing comparison process is very difficult to deliver practically and effectively given the dynamic nature of pricing, and the wide variety of risk factors that influence pricing at any point in time.

There are also issues associated with indicative pricing in that pricing on a comparison website may not match the real-time price offered by insurers. This could be potentially misleading due to the discrepancy between the actual and comparison price and lead to poor customer experiences and mistrust of the comparison website.

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<sup>3</sup> Senate Economics References Committee's [Report](#) 'Australia's general insurance industry: sapping consumers of the will to compare - August 2017', page 52.

### **Draft Recommendation 5: Renewal notices should give 28 days' notice**

IAG supports this draft recommendation in principle. However, our observation of customer payment behaviour shows that generally customers will only engage with their policy at the later end of the timeframe provided. There is no guarantee that consumers will use this time to undertake any additional research or policy review.

IAG's current business process is to issue renewal documents 28 days prior to policy expiration. This process provides us with some flexibility and allows a contingency margin for any potential operational issues.

Should a 28-day lead time become the minimum timeframe, our renewal process would need to begin earlier to allow for this contingency margin. This raises two issues:

- We believe it is undesirable to price the renewal so far out from the renewal due date. This may impact the ability of certain insurers (who have built in these contingencies) to compete effectively in a dynamic pricing market; and
- Renewal documents arriving too far in advance will be overlooked by customers – we want to ensure that our customers are covered.

### **Draft Recommendation 6: Disclosure where premium increases are capped**

IAG supports greater meaningful transparency that effectively permits consumers to make better informed decisions. IAG believes the draft recommendation would not achieve this intent and could result in adverse outcomes for consumers.

We do not believe this draft recommendation would be helpful to consumers in a market and in circumstances where policies are designed to be priced on an annual basis using dynamic information, and where practices may vary in the market. Specifically:

- The technical price is likely to change from year to year as models are updated, or as latest information emerges e.g. a new flood study. This may lead to material variation from year to year;
- Business strategy may also require a change to the capping mechanism over time; and
- Different insurers may have materially different capping rules, processes, or may not use capping at all.

Consequently, an estimate of the timing and extent of future premium increases are both variable in nature and may not be consistent between insurers. Consumers may be confused or misled by these price signals that change from year to year and from insurer to insurer.

### **Draft Recommendation 7: Consider likely insurance costs before purchasing real estate**

IAG supports consumers being effectively informed of potential insurance costs when they are considering purchasing real estate.

IAG supports the first part of this draft recommendation – that States and Territories should require a statement in a statutory information disclosure for a real estate transaction advising any potential purchaser to obtain an insurance estimate as part of their due diligence. We believe this will assist prospective buyers in understanding the costs associated with insurance coverage for a property and help (in part) to address the issue of non-insurance / underinsurance. Perils

information held by local councils, such as flood or bushfire mapping, could be made more readily available, when consumers really need it, by this means. This could perhaps, in part, take the form of (as an example) a flood certificate issued by a relevant authority.

We also believe the statutory information disclosure should include information that is necessary for a potential purchaser to obtain an accurate insurance estimate i.e. information required by an insurer to provide a quote that is generally known to the vendor / agent but not the potential purchaser e.g. the year of construction of the property.

However, we do not agree with the second part of this draft recommendation (i.e. requiring real estate agents and private vendors to obtain insurance estimates as part of the real estate transaction) for the following reasons:

- Insurers use several rating factors, including claims history, property age, loyalty discounts, property use, etc. Crucially, this includes information specific to the individual owner. Any estimate the vendor obtains (regardless of whether that estimate is based on mandated standard cover) will not be related to the specific prospective buyer and so may misrepresent their likely insurance cost. There is also a risk that the estimate may become out of date, misrepresenting the likely cost to prospective buyers;
- Real estate agents and private vendors may have a vested interest in understating the insurance costs to improve the saleability of the property, and therefore only obtain the most basic 'budget' insurance quote. This is unlikely to be representative of the most appropriate level of cover for the buyer, particularly in circumstances where the property may be adversely impacted by flood or other extreme perils risks; and
- The cost of obtaining an insurance estimate may be passed on by the vendor / agent to the potential purchaser.

#### **Draft Recommendation 8: Requesting personal information held by insurers**

IAG supports the use of accurate data in risk assessment and pricing. Informing consumers of their ability to request relevant information is a positive step, and IAG has existing processes in place to facilitate access.

We also believe most (if not all) insurers have existing policies and practices that enable their customers to enquire about relevant policy information. This notification would already be made in a PDS and / or a privacy policy. On that basis, a statutory requirement to notify insureds may not significantly improve upon current practices.

#### **Draft Recommendation 9: Strata managers to be remunerated by body corporate only**

IAG supports the appropriate and effective aligning of strata managers' interests with those of the body corporates they serve.

IAG believes a prohibition on strata managers accepting non-body corporate payments in relation to strata insurance they arrange is not the right solution. We believe the following options will provide greater consumer protections and transparency whilst at the same time addressing the potential for conflicted remuneration:

- Mirror the requirement in NSW for strata managers to obtain multiple quotations to ensure the body corporate gets the best possible coverage at the best price;

- Giving body corporates the right to contact brokers or insurers to ascertain the appropriateness of the policy for their strata property (whether by its terms and / or the policy's price);
- Introducing a best interests duty for strata managers to act in the best interests of body corporates. A breach of this duty could be subject to a civil penalty;
- Fixing or capping commissions that are payable to strata managers – caps should be a dollar amount and not a percentage which can increase with premiums;
- Requiring insurers and brokers to disclose commissions payable to strata managers; and
- Prohibiting strata managers from becoming involved in strata committee elections (done with the aim of influencing the decisions of committees to act favourably toward strata managers).

There may also be some unintended consequences if strata managers are prohibited from accepting payments from insurers and brokers for arranging insurance. Strata managers could increase their management fees to maintain an equivalent revenue stream.

#### **Draft Recommendation 10: Clear disclosure of products considered and remuneration**

IAG supports greater meaningful transparency that effectively permits consumers to make better informed decisions.

If this draft recommendation is adopted, IAG believes:

- The list of products (and brands, regardless of whether Recommendation 3 is accepted) should be provided during the quoting process;
- Brokers should disclose that they only have access to products offered via intermediated channels and that they do not have access to direct brands (again, regardless of whether recommendation 3 is accepted);
- To ensure greater consistency, the relevant disclosure wording and requirements should be prescribed; and
- Clarity is required on what “remuneration” is covered e.g. is a fee for a service provided (other than the provision of advice and / or dealing) intended to be included?

We also support the disclosure of commissions and other remuneration for comparison websites. This information should be disclosed during the quoting process.

#### **Draft Recommendations 11: Giving consumers more control over how claims are settled**

Providing consumers with the right to choose to a cash settlement of their home / contents insurance claim requires careful and thoughtful consideration of the potential adverse consequences to consumers.

IAG would support a modification to the recommendation, giving the consumer the right to refuse a cash settlement where it is offered by the insurer and a home repair / contents replacement would be an appropriate alternative option. This would serve to protect consumers from a form of settlement they do not wish to receive and would avoid many of the issues noted below that arise from a right to elect to receive a cash settlement.

Based on historical claims experiences and events, IAG does not believe the draft recommendation would generally lead to a positive customer outcome.

Where possible, IAG's preference is to repair or rebuild our customers' properties (or replace our customers' contents) to put our customers back in the position they were in prior to an event. This permits us to provide support for our customers in their time of greatest need and help make their world a safer place.

As a general principle, in some cases our customers may not benefit from choosing a cash settlement. This is because:

- They may not receive a lifetime guarantee on the workmanship of repairs from their insurer (which means they may need to personally deal with any issues relating to the quality of repairs, customer service and / or cost);
- They must manage the entire repair process (including managing any delays); and
- In some instances, our customers have elected not to repair the damage (or replace the contents), resulting in future claims (because repairs have not been completed) being declined. (We note that in previous major claims events, our customers' personal circumstances or influences have, unfortunately, led to the inappropriate or imprudent use of a cash settlement, ultimately leaving the customer at a disadvantage or possibly homeless).

Of course, there will be circumstances where cash settlements may be required or offered, in the best interests of both parties, and we believe it is better to deal with these circumstances on a case-by-case basis, for example:

- Where there is existing damage to the property that a customer is unable to have repaired and which prevents the insurer from completing the repairs;
- For small items of contents where the insured would prefer to replace the item themselves; and
- During a catastrophe where the estimated repair times can be extended beyond the norm, and the insured wishes to receive a cash settlement. However, there may be a financial impact to the customer where demand for trades exceeds supply.

#### **Draft recommendation 12: Clearly stated mitigation discounts**

Please see response below to draft recommendation 13.

#### **Draft recommendation 13: Information on mitigation works that could reduce premiums**

IAG has long supported the need to invest in the community and personal mitigation. We have invested and been actively involved in a range of research and industry forums dedicated to understanding the impacts mitigation has on saving lives and putting downward pressure on premiums.

On that basis, we broadly support the intent of draft recommendations 12 and 13 on the basis that there are obvious benefits in mitigation works being undertaken to a property. However, there are several concerns around the design and implementation of the discounts that need to be addressed.

The primary issue is around what constitutes 'mitigation works'. By way of example, a property may be fitted with a sprinkler system to reduce the risks associated with bushfires. During the quoting process, Insurer A may ask certain underwriting questions relating to the installation of



systems to reduce the risks associated with bushfires whereas Insurers B and C do not ask similar questions. As a result, Insurer A may provide a discount on the premium whereas Insurer B may not offer a similar discount. Insurer C may take into consideration the installation of the system via bespoke, individual underwriting determination (even though the installation of the system was not on its list of underwriting questions) in determining the premium.

As each insurer has a different approach to pricing risk, the answer to whether it would be worthwhile for consumers to incur the upfront cost associated with mitigation works would differ for each insurer (and it would therefore be difficult to make comparisons between insurers). The only way to resolve this issue (and to ensure consistency) is to require each insurer to ask (essentially) the same set of underwriting questions. In our view, this outcome is not consistent with the ideal of a competitive marketplace and creates challenges for insurers that have genuinely differing views about the efficacy of various mitigation measures (i.e. a mitigation activity that is viewed favourably by one insurer may not be viewed as favourably by another insurer).

A related issue is that of completeness: if a new mitigation mechanism is discovered, it would need to be acknowledged by a standardised underwriting process. We suggest that the competitive marketplace is a more efficient and effective structure to manage such changes.

In addition, listing the various mitigation measures and their associated discounts will involve significant systems development, increased customer enquiries and potentially contentious conversations with customers (i.e. price versus value). These additional costs may ultimately be passed on to customers in the form of higher premiums.

Finally, and consistent with previous responses to other recommendations, there is a question about whether more information presented upfront in the manner described in these draft recommendations will lead to a more informed choice on the part of the consumer, and improved decision making. We do not necessarily agree with this view and believe these recommendations, or any similar recommendations, should be informed by consumer behavioural research.

As highlighted in IAG's [submission](#) (page 32) to the ACCC's Northern Australia Insurance Inquiry [Issues Paper](#), disaster risk awareness and risk reduction education are effective when the public, private, education, and community sectors collaborate. To involve these many stakeholders, cross-sectoral platforms such as disaster risk reduction task forces or networks can promote a collaborative process for the creation, implementation and dissemination of risk awareness and risk reduction education programs and strategies.