

ACCC Northern Australia Insurance Inquiry
GPO Box 520
MELBOURNE
VIC 3001

Re: Public submission – Northern Australia Insurance Inquiry

The Royal Automobile Club of Queensland ('RACQ') thanks the Australian Competition and Consumer Commission ('ACCC') for the opportunity to provide this submission in response to the *Northern Australia Insurance Inquiry - First Interim Report* ('Interim Report').

As Queensland's largest club and a proudly member owned organisation, RACQ has a strong interest and stake in the future of affordability and sustainability of insurance for Queenslanders. On behalf of RACQ's 1.7 Million members, we exist to make a positive difference to their lives now and in the future.

We have considered this submission with our RACQ members in mind, as well as the fundamental purpose of insurance: a collective contribution by the community today, to protect members of that community who might, in the future, be impacted by an unexpected event.

The issues of affordability and underinsurance in Northern Australia are concerning and are likely to continue to worsen in the current climate. We welcome this inquiry and the intent of the recommendations put forward in the Interim Report.

While this submission responds to each individual recommendation in detail, two fundamental themes have emerged, which in our view, require further focus and careful consideration: *Education & Communication*; and *Collaborative Mitigation*.

Education & Communication

A fundamental change in how the customer considers insurance is needed to shift the focus from price and price comparison, to informed decisions and best suited coverage. Inspiring people, creatively, to think about where they are purchasing, what questions to ask, where to find flood data, building for resilience, financial literacy, the purpose of insurance and considerations when choosing cover will help achieve cut-through with customers.



RACQ broadly supports the principles outlined in the Interim Report, however cautions against mandating additional disclosure requirements as this could result in further confusion. We aim to understand our members and consider first how they want to receive information and what other priorities they have in their lives – respecting that their time is valuable and often limited. We recommend that disclosure obligations be principle based, with the key driver of effectiveness at the core. This will better enable insurers to connect with customers at many touchpoints and will minimise the risk of overburdening customers at a single touchpoint and causing them to switch off.

Collaborative Mitigation

Combating rising premiums in Northern Queensland and sustaining communities in the region will only be achieved with cooperation, collaborative thinking and if all parties are working to the same end goal, and with the same values and rules. Cooperation at the community level is needed between government, urban planners, property developers, lawyers, builders, designers, engineers, insurance companies, brokers, community groups and residents. Transparency, sharing of data, analysis and a collective commitment to do better and actively pursue the common goal of a protected and resilient community, will need to underpin broader mitigation thinking and action.

RACQ supports the redirection of stamp duty revenue to public mitigation measures for vulnerable communities. We also support the Insurance Council of Australia's ('ICA') call for implementation of the Productivity Commission's recommendation for \$200 million a year in mitigation and resilience, matched by State and Territory Government, and its view that:

“Mitigation works should be treated as nation-building infrastructure projects, on par with highways, rail and bridges. When mitigation is in place it protects communities, has a substantial impact on the economy and productivity and helps prevent loss of life.”

Further considerations

We are cognisant that we are currently in a period of active regulatory reform within the insurance industry. We encourage the ACCC to consider any individual reform or regulatory change within the broader context of how any changes will ultimately impact the customer – the person who has endured the hardship of a natural disaster or insurance event.



At RACQ, we have an organisation-wide commitment to understand and meet the needs of our members. With this view, we ask if any customer testing or validation has been undertaken on some of these recommendations?

RACQ thanks the ACCC for the opportunity to provide this submission and contribute to shaping the future of insurance in Northern Australia. Should you need to discuss any of the items raised in this letter, you can contact Tracy Green, General Manager Insurance Product and Pricing on telephone (07) 3666 9154 or email tracy.green@racq.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'John Myler', written over a faint circular watermark.

Mr John Myler

CEO RACQ Insurance

E: john.myler@racq.com.au



RACQ provides the following submissions in response to the Recommendations contained within the Interim Report.

Recommendations:

Recommendation 1: Abolish stamp duty on home, contents and strata insurance products

RACQ supports Recommendation 1, as it is in line with recommendations from previous inquiries into insurance and taxation issues.

As stipulated in the Interim Report, within the last ten years there has been a \$57 million increase in the stamp duty revenue collected from home, contents and strata insurance in Northern Australia. This places a heavy and direct burden on the affordability of the identified insurance products and the removal of stamp duty will provide immediate relief for customers.

Recommendation 2: Re-base stamp duty; use stamp duty revenue and mitigation

As discussed above, RACQ supports the abolishment of stamp duty on home, contents and strata insurance products as it will provide immediate relief for customers. However, if this is not possible, as an alternative, RACQ would support stamp duty being re-based away from premium levels to an alternative model. Careful consideration should be given to the alternatives as past examples, such as region-driven determinations, can quickly become confusing for customers and drive the perception of inequity. Other possible examples (such as the New South Wales Stamp Duty Exemption) demonstrate complexity for both insurers and customers and are administratively burdensome to implement and maintain. Consideration of a 'maximum payable' limit, or as an alternative, a flat-fee structure should be undertaken.

RACQ agrees that stamp duty revenue should be directed to mitigation options and measures that will improve affordability for vulnerable communities. To protect the intent of this Recommendation, RACQ encourages recognition of the importance of legislative protections to ensure that revenue collected from stamp duty would actually be distributed to public mitigation work.



Recommendation 3: Insurers to report their brands and where they are writing new business

RACQ supports elements of Recommendation 3, namely the requirement for insurers to report their brands. However, the disclosure of where business has been written raises questions regarding competition and whether this proposal actually solves the problem for customers affected by affordability issues.

Recommendation 4: Standardise definitions of prescribed events

RACQ supports Recommendation 4, and notes alignment with work actively underway through the ICA. RACQ supports investigations of methods to improve customer understanding and clarity of what insurance is and how it works. Establishing standard definitions and terms across the industry may contribute to modernising the language to improve the financial literacy of insurance customers. This in turn supports better customer outcomes due to a minimisation of fundamental misunderstanding or lack of awareness of cover and terms.

Recommendation 5: Review and mandate standard cover

RACQ is passionate about, and committed to, understanding customer needs and providing them with appropriate and affordable coverage options. We also support the ICA's work on improving product comparability across the industry and reviewing options for standard cover.

While RACQ supports Recommendation 5 in principle, there are several factors that require careful consideration before mandating a standard cover, including:

- Design and Distribution requirements (e.g. what would the target market of a standard cover policy be?);
- Informed customers (if they deviate from the standard cover);
- Competitive disadvantage (brand, competitive positioning and product offering);
- Risk appetite (of insurers in regard to it being a barrier for entry and potential under insurance); and
- Limitations to innovation (as stipulated in the Interim Report, the freedom for insurers to innovate product offerings is "necessary to ensure markets meet customers' needs").



Recommendation 6: Unfair contract term protections should apply to insurance

RACQ recognises the alignment of this Recommendation with previous recommendations and will continue to work with the ICA and Commonwealth Treasury proposal regarding these changes.

Recommendation 7: A link to MoneySmart should be on new quotes and renewal notices

RACQ supports initiatives that improve the financial literacy of customers, and therefore the intent behind Recommendation 7, however, does not support it as currently presented.

Customers are already inundated with prescribed disclosures in new quotes and renewal notices, leading these documents to sometimes exceed 7 to 8 pages in length. Adding a link to a general information website would not aid customer clarity in this context.

On top of detailed documents and PDSs, RACQ asserts that over-regulation of prescribed disclosure to improve customer understanding is contrary to the evidence and preferred approach of effective disclosure, which RACQ supports.

Recommendation 8: Better understand information that falls within 'general financial advice'

RACQ supports Recommendation 8 and increased engagement between the ICA and the Australian Securities and Investments Commission ('ASIC') on an ongoing basis to gain a clearer understanding of what falls within 'general financial advice'. We also acknowledge the alignment this Recommendation has with Effective Disclosure, as well as recommendations from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry ('Royal Commission').

Recommendation 9: Disclose costs that count towards 'sum insured'

RACQ supports the intent of Recommendation 9 and asserts that this is being adequately addressed through the current Disclosure and General Insurance Code of Practice changes. However, RACQ believes this degree of prescription actually counters effective disclosure principles.



Recommendation 10: Disclose the premium, sum insured and excess on a renewal notice

RACQ supports the drive towards more effective disclosure. However, prescribing detail at the level articulated in this Recommendation is counterproductive to a principle-based disclosure environment, which would provide flexibility to engage with customers in a more meaningful way. RACQ already provides this information on its renewal notices and upon request. In addition, RACQ notes that Industry is committed to disclosing the previous year's premium on insurance renewal notices to allow customers to easily identify key changes in premiums.

Recommendation 11: Extend the ban on conflicted remuneration to insurance brokers

RACQ understands there have been case studies of conflicted remuneration driving poor customer outcomes. However, RACQ cautions against a 'one size fits all' approach to this issue across other types of insurance and alternative models of distribution. If this Recommendation is accepted and implemented, there are potential downside impacts to customers who currently access benefits and protection through using broker channels, particularly in the context of a lack of financial literacy.

Recommendation 12: Better information for consumers lodging a claim

RACQ supports the intent of Recommendation 12, as we are committed to improving customer awareness and understanding of the claims process. However, we assert that customers already receive adequate information about lodging a claim. With that in mind, RACQ provide the following commentary on the specific criteria:

- *How the insurer will assess the validity of the customer's claim*
 - RACQ supports the development of a high-level industry guide that sets out generally what information is considered by insurers in assessing customer's claims. However, there must be acknowledgment that there is no single manner of validating a claim and what is required can vary depending on the circumstances of the loss and damage, the terms of the contract with the customer and each insurer's cost versus risk appetite.
- *The insurer's preferred repairer policy and in what circumstances a consumer can use their preferred repairer*
 - RACQ notes the importance of supply chain management leading to cost containment and quality control in the context of claims management which has a direct result on the price paid by the customer. RACQ sees opportunities for alternative models in this



space which deliver customer choice, but with recognition of associated cost (affordability) impacts.

- *How decisions are made on cash settlements*
 - RACQ would support measures to help raise awareness of the factors involved with cash settlements decisions. However, careful consideration would be required to understand the impact of having this directly regulated.
- *Who will be managing the claim (for example, the name and contact details of a contracted claims company if relevant)*
 - RACQ recognises the importance of consistency of claims service. We operate a model that strives to have one RACQ team member as owner of the management of the customer's claim, from claim lodgement through to finalisation. RACQ does not provide the allocated claims owner's individual name and contact details to the customer as RACQ cannot guarantee that that person will always be available. However, to support the customer, RACQ provides a contact number for customers to call in relation to their claim, and upon calling that number, through phone number recognition technology, the customer is pathed to the team member allocated to their claim, or to another person who is able to assist. RACQ also supports, and has no concerns with, sharing the name and generic details of any contracted service supplier.
- *The fact that the loss adjuster is acting on behalf of the insurer and not the consumer*
 - This is supported.
- *The consumer's right to make a complaint to the insurer and the Australian Financial Complaints Authority*
 - RACQ supports this and asserts that this is already in practice at RACQ.

Recommendation 13: ASIC approval for the General Insurance Code of Practice

RACQ supports Recommendation 13 and acknowledges the work already underway to update and enhance the General Insurance Code of Practice.

Recommendation 14: Public mitigation works and expected premium reductions

RACQ supports Recommendation 14 and opportunities to implement largescale 'hard' public mitigation projects. RACQ continues to advocate on behalf of our members for investment from Government to influence positive change in regard to mitigation measures, particularly in Northern Australia.

Recommendation 15: Building code changes to better protect interiors and contents



RACQ supports Recommendation 15 and opportunities to improve the resilience of properties.

Historically, building codes have rightfully focused on minimising risk to loss of life. It is encouraging to see recommendations like this that consider options to address issues related to extreme weather events and other natural hazards. As identified in the Interim Report, this will reduce the risk of property damage (and resulting insurance claims). However, RACQ highlights that there may be an impact on affordability, as the cost of construction is likely to increase to cater for the building code changes. This was evidenced by the introduction of Bushfire Attack Levels and new associated codes.

There is also an opportunity to think about how research and funding might be applied to develop cost effective ways of improving building resilience. RACQ encourages the ACCC to consider the 2016 Australian Business Roundtable for Disaster Resilience and Safer Communities 'Building resilient infrastructure' report that examines considerations from an infrastructure perspective.¹ These principles may be useful when looking specifically at building code changes.

RACQ further highlights opportunities for local councils and other development regulation bodies to have stronger and more rigorous frameworks for assessing flood and other hazard components of proposed development topography and the associated building codes and housing types deemed suitable for any individual site.

¹ The Australian Business Roundtable for Disaster Resilience and Safer Communities, *Building Resilient Infrastructure*, Deloitte Access Economics, March 2016, <http://australianbusinessroundtable.com.au/assets/documents/Report%20-%20Building%20Resilient%20Infrastructure/Report%20-%20Building%20resilient%20infrastructure.pdf>



Draft Recommendations:

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

RACQ supports the intent of Draft Recommendation 1 and sees it as aligned with other recommendations related to helping customers make informed choices. We also support the sharing of information to provide better parity of information for customers and sees the role of insurers as providing adequate information to enable customers to make informed decisions. However, to do this, we rely on customers to provide relevant information to enable the estimation. Therefore, insurers can never be fully responsible for this. Additionally, the suggestion that it extend to renewals requires further review, as this may risk triggering the provision of advice and would need to be considered closely from a deployment perspective.

Further, the suggestion of inclusion at renewal has implications around effective disclosure in the context of the sheer volume of information required to be included in documents, as mooted by the Interim Report. RACQ is interested to understand what customer testing has been completed around the desirability and effectiveness of these recommendations individually and collectively. Alternative touch points with customers that may make conversations and decision more meaningful should also be explored.

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

RACQ supports Draft Recommendation 2 and ensuring PDSs and KFSs are prominently displayed alongside relevant products. Further, RACQ believes the significant program of work surrounding effective disclosure supports the overall intent of clarity of communication, improved financial literacy and uplifting information sharing to promote informed choice.

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

RACQ believes that any disclosures related to optional inclusions or exclusions need to be balanced in terms of relating to risk, rather than a requirement to disclose the premium aspect only. RACQ holds serious concerns about the disconnect experienced by customers driven from displaying potential premium savings relating to optional covers and then being exposed to a higher level of risk at the time of a claim. This increases the possibility of customers selecting cover based on perceived premium savings rather than an informed risk assessment. RACQ considers the much bigger risk as being in sum insured selection as opposed to optional inclusions, which is highlighted in the below case study.



In this hypothetical case study, we have created a customer who is seeking an insurance quote for a house located at 18 Fern Street, Holloways Beach, QLD, 4878 (Cairns region). Four example quotes are shown below to highlight the differences between selecting cover to ensure adequate coverage and selecting cover based on perceived premium savings.

Example one:

Building sum insured: \$500,000

Items away from home: \$8,000

Premium: \$7,352.31

Example two:

Building sum insured: \$500,000

Items away from home: \$0.00

Premium: \$7,176.92

Example three:

Building sum insured: \$300,000

Items away from home: \$8,000

Premium: \$5,137.08

Example four:

Building sum insured: \$300,000

Items away from home: \$0.00

Premium: \$4,961.69

In example one, the customer has selected a premium through an informed risk assessment, ensuring adequate coverage for sum insured and additional optional coverage for a selection of items away from home. Examples two – four identify premium savings, however, they are at the expense of having reduced coverage, which puts the customer during at risk of financial loss (through underinsurance) where significant damage is experienced at the property, for example, through cyclone/ wind/ water ingress.

Further, RACQ considers there is a downside risk of sharing too much information and confusing customers. We recognise the value of customer testing to determine the effectiveness of measures and disclosure or communication components meeting their stated intent and guarding against unintended consequences driven by complexity.

RACQ encourages a focus on meaningful measures that centre on how insurers can better equip customers to manage their risk. This would lead to a more affordable price (rather than manage the price alone, which could result in an increased exposure) through personal accountability and improved financial literacy.

Draft Recommendation 4: National home insurance comparison website

RACQ does not support the introduction of a national home insurance comparison website as detailed in Draft Recommendation 4. Key factors that influence RACQ's positioning include:



- Historic comparison websites
 - The existing ASIC website which compares insurers in North Queensland has not proved particularly successful and hasn't driven identifiable improved customer outcomes.
- Misalignment with the current regulatory environment
 - A comparison website does not align well with the current regulatory reform package. For example, changes to target market definition, effective disclosure and appropriate distribution channels seem counter to the premise of a comparison site.
- Customer financial literacy
 - There is a significant portion of customers that will select insurance products based on price considerations as opposed to best suited coverage. These decisions can be driven equally by affordability, appetite or financial literacy components. Displaying products in a comparison site presents challenges in steering away from defaults to price comparison as opposed to informed decisions.

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

RACQ supports the intent of Draft Recommendation 5 to provide customers sufficient time to consider their renewal quote and explore their insurance options. However, there are several practical considerations that must be assessed prior to imposing additional regulatory timeframes on insurers, including:

- Customer behaviour
 - Currently, every customer is sent a renewal document a minimum of 14 days (but often up to 28 days) in advance of their renewal's due date; and
 - Advances in electronic communication mean that reminders in advance of and post renewal date contribute to customer awareness and protect against unintentional un-insurance.
- Current regulatory environment
 - As the industry moves into a period of active change and a package of major reforms, adding this requirement now, with its implications for lead-time and system change, adds additional risk including the risk of systemic breach.
- Internal processes
 - Current processes within RACQ allow more time for customers than the nominated 14 days, with policies not immediately lapsing upon non-payment.



Draft Recommendation 6: Disclosure where premium increases are capped

RACQ does not support disclosure of capped premium, however does support the principle of increased pricing transparency. We are concerned that this Recommendation will stifle innovation in the insurance industry, as well as act as a price signal in a market context.

There is a natural tension between individualised pricing and community rating, and pricing transparency needs to be considered in this context. Further, it should be recognised that capping (and cupping) tools are used for a variety of reasons.

Further, insurance prices are primarily set based on insurers' views of expected claims costs based on both experience and detailed (sometimes proprietary) geographic information systems and data. Supporting the principle of transparency, and recognising that high premiums are a signal of high risk, RACQ proposes additional consideration be given to how information of high risk could be better communicated to customers to enable consideration of protection and mitigation.

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

RACQ supports the inclusion of a prompt to customers to investigate insurance costs when considering purchasing real estate.

The Interim Report notes that the prompt should also include an average premium estimated from a mandated standard cover (should Recommendation 5 be accepted and implemented). RACQ stresses that any estimated premium would need to be an average of a range as insurers also underwrite based on moral hazards, such as age and claim history.

Draft Recommendation 8: Requesting personal information held by insurers

RACQ supports the intent of Draft Recommendation 8 to provide clear notice to customers that they can request personal information held by insurers. However, as highlighted in our submissions above, we do not support overburdening regulation and prescriptive directives on specifics of inclusion on notices or other documents as we believe this is counter to the effective disclosure requirements and ethos.



RACQ notes that privacy policies disclose to customers how they can access information that is held about them. Further, RACQ maintains that this should be principle based and enable flexibility for the insurer to connect with their own customers to determine the most appropriate disclosure and communication pathways.

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

RACQ does not operate in the commercial strata market, therefore does not offer commentary on Draft Recommendation 9.

Draft Recommendation 10: Clear disclosure of products considered and remuneration

RACQ supports Draft Recommendation 10 and measures that improve awareness of the breadth of consideration sets provided by comparison websites and brokers, particularly from a product offering perspective.

Draft Recommendation 11: Giving consumers more control over how claims are settled

RACQ understands and supports the intent of this Recommendation in terms of providing choice to the customer and correcting perceived imbalances in rights and obligations. However, RACQ does not support the Recommendation in its current form.

We assert that the Recommendation, as written, will potentially have the unintended outcome of impacting affordability of insurance if insurers cannot put in place a well-managed supply chain to drive down cost. Affordability of insurance, as well as the considerations below, need to be adequately considered before support can be given for this Recommendation.

- *Unfair contract terms*
 - RACQ sees this Recommendation as crossing over with the Unfair Contract Terms proposal and encourages simplicity and clarity in the levels of regulation being contemplated across agencies.
- *Financial literacy of customers*
 - Given the varying levels of financial literacy across customers, RACQ holds concerns around ensuring all customers understand the risks involved in such decisions.



- *Supply chain management*
 - In addition to the issue of affordability raised above, it is also important for insurers to have in place a well-managed supply chain, so they can also be confident in the quality of repairs.
- *Cash settlements during disasters*
 - It should be noted that in a catastrophe scenario, customers currently have recourse back to insurers for 12 months if their claim is finalised by a cash settlement within one month after the event.² This provides a ‘cooling-off’ mechanism. However, instances aired at the Royal Commission suggest quick cash settlements may not be appropriate in all instances and customers may not be equipped with the knowledge to make this determination.
- *Restoration versus renovation*
 - The obligation of insurers is to return insureds to the position they were in prior to their loss. In some cases insureds prefer to use the opportunity provided by a loss to update or renovate their home to a different standard than the house was prior to the loss. In this instance it is important insurers and customers alike have the flexibility to negotiate a settlement that appropriately reflects desired outcomes and obligations.

Should Draft Recommendation 11 be accepted, careful consideration must be taken to ensure a balance between customer protection and insurer obligations. For example, as noted in the Interim Report, if the customer is given clear notice of the implications of accepting a cash settlement, protections must be in place to “discharge the insurer of any obligations to manage or guarantee the quality, cost or timeliness of any repair the customer chooses to undertake”.

Draft Recommendation 12: Clearly stated mitigation discounts

RACQ supports Draft Recommendation 12 and sees it as part of current initiatives centred on broader transparency of pricing. RACQ currently has a cyclone mitigation program in place and supports the link between mitigation and protection works with reward through pricing. As reflected earlier in the submission, the opportunity for government investment in larger scale mitigation programs will provide more relief for communities as a whole, so individual mitigation works, while important, should not be viewed as an alternative to the foundational needs of broader community investment.

² Insurance Council of Australia, *General Insurance Code of Practice*, Section 9 – Catastrophes, July 2014, <http://codeofpractice.com.au/document/9-catastrophes>



Draft Recommendation 13: Information on mitigation works that could reduce premiums

RACQ supports the intent of Draft Recommendation 13 and measures that provide customers with information on how to improve their risk rating. However, as highlighted in responses above, RACQ does not support prescriptive regulation and directives about documentation that appears counter to principles of effective disclosure as a means to improve the financial literacy of customers.

RACQ believes alternative touch points such as regular, direct marketing campaigns, outside of the formal renewal documentation, provide a more meaningful experience for customers. This would increase understanding and awareness of the mitigation works that could reduce premiums not only at an individual level, but also across the wider community.