



Our ref: IRD22005335

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4 April 2024

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Standardised definitions and standard cover for insurance

The Australian Competition and Consumer Commission (ACCC) welcomes the opportunity to make the attached submission to Treasury's consultation on standardising natural hazard definitions and reviewing standard cover for insurance.

Our submission is informed by our Northern Australia Insurance Inquiry, in which we made a number of relevant recommendations, as well as our current insurance monitoring role.

The ACCC strongly supports reforms to make it easier for consumers to understand and compare insurance products and to help consumers choose an appropriate amount of insurance cover for their home and contents. More confident and informed decision making can support greater competition in insurance markets, and importantly, it can help mitigate the risk of unintentional underinsurance and the devastation which can ensue when a disaster occurs.

We also continue to support measures to improve the affordability of insurance, which we consider is at the heart of addressing concerns about rising rates of underinsurance and non-insurance. We made a number of important recommendations in the Northern Australia Insurance Inquiry to address immediate affordability concerns, and we continue to advocate for these.

Yours sincerely

Gina Cass-Gottlieb

Chair

1. Introduction

The ACCC is an independent Commonwealth statutory agency that promotes competition, fair trading and product safety for the benefit of consumers, businesses and the Australian community. The primary responsibilities of the ACCC are to enforce compliance with the competition, consumer protection, fair trading and product safety provisions of the *Competition and Consumer Act 2010 (Cth)*, regulate national infrastructure and undertake market studies.

The ACCC has a limited direct role in general insurance, which is primarily regulated by the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA). However we have general competition law oversight and may also have specific insurance-related roles where directed by government.

In 2017, the then government directed us to undertake a wide-ranging inquiry help address concerns about insurance affordability and availability in northern Australia and consider how to promote more informed and more competitive insurance markets. We provided the final report of our inquiry into the supply of home, contents and strata insurance in northern Australia (the Northern Australia Insurance Inquiry), on 30 November 2020.¹

In 2022, the ACCC was directed to monitor the effectiveness of the government's cyclone reinsurance pool for cyclone and cyclone-related flood damage, which is administered by the Australian Reinsurance Pool Corporation (ARPC). We are required to report at least once each calendar year until 30 June 2026. To date we have released two reports.²

Informed by these two pieces of work, the ACCC offers a submission to Treasury's consultation, with particular regard to the findings and recommendations from our Northern Australia Insurance Inquiry.³ In that inquiry, in addition to examining the pricing and availability of insurance, we were also asked to consider any impediments to consumer choice, including transaction costs, a lack of transparent information, or other factors.⁴

We found that rising insurance costs are leading to higher rates of non-insurance in northern Australia, leaving more households and communities financially vulnerable to the impact of severe weather events. While we found that shopping around could help consumers find lower premiums, consumers face high costs in searching for potential alternative products and they are not always given the information they need to make good choices about the type and amount of insurance they need.

In addition to making recommendations to governments to address immediate insurance affordability concerns, we recommended a range of reforms to make it easier for consumers to search for, and compare, insurance products. These recommendations included to standardise definitions of prescribed events (recommendation 17.1) and to review and mandate standard cover (recommendation 17.2). We also made a range of recommendations to help consumers choose the right amount of insurance cover, including to mitigate the risk of unintentional underinsurance through an inadequate sum insured.

¹ ACCC, [Northern Australia Insurance Inquiry – final report](#), (NAII final report), 30 November 2020.

² The first and second insurance monitoring reports are published on the ACCC's [insurance monitoring](#) webpage.

³ ACCC, [NAII final report](#), see particularly chapters 17 and 18.

⁴ The terms of reference are published on the ACCC's [Northern Australia Insurance Inquiry](#) webpage.

There has been no formal response to our final report and the 38 recommendations made within it.

This submission discusses the most directly relevant of the recommendations the ACCC made for further consideration in the context of this consultation. We also discuss other key recommendations we made which we believe would be most complementary to reforms to standard cover and standardised definitions.

Chapters 17, 18 and 19 of the Northern Australia Insurance Inquiry final report provide a very detailed discussion of the findings and recommendations referred to in this submission.

Whilst the terms of reference for the Northern Australia Insurance Inquiry limited our examination to northern Australian insurance markets, we believe that many of the recommendations we made could also benefit consumers and insurance markets nationally, if more broadly applied. We also consider many of the findings and recommendations we made remain just as relevant, if not more relevant.

Part 2 of this submission talks about the impacts of consumer confusion, underinsurance and non-insurance. Parts 3 and 4 discuss the ACCC's views on standard cover and standard definitions respectively. Parts 5, 6 and 7 discuss the broader context and some further initiatives that may be relevant to Treasury's considerations. Part 8 provides concluding remarks.

Appendix A contains the full text of relevant recommendations from the final report of the ACCC's Northern Australia Insurance Inquiry, which are referenced in this submission. These recommendations are listed in Box 1.

Box 1: Northern Australia Insurance Inquiry recommendations referred to in this submission

Making it easier for consumers to search for, and compare, insurance products

There are a range of reforms that will make it easier for consumers to search for, and compare, insurance products. We recommended changes to improve the comparability of insurance products, require insurers to share certain information with consumers and make it easier for consumers to access existing information sources. Recommendations included:

Recommendation 17.1: Standardise definitions of prescribed events

Recommendation 17.2: Review and mandate standard cover

Recommendation 18.6: Disclose premium impacts of optional inclusions and exclusions

Recommendation 18.7: National home insurance comparison website

Choosing the right amount of insurance cover

Consumers generally bear the risk of underinsurance as they are required to nominate the sum insured for their property. Insurers can provide clearer advice to their customers to help them choose the level of cover that they need. Recommendations included:

Recommendation 18.3: Better understand information that falls within 'general financial advice'

Recommendation 18.4: Insurers should estimate a sum insured for customers

Recommendation 18.5: Insurers should disclose costs that count towards 'sum insured'

2. The impacts of underinsurance and non-insurance are profound

High rates of private insurance are socially beneficial, not only in terms of the efficiencies of risk pooling, but also in reducing the reliance on governments and charities to support the personal hardship that arises when uninsured property is damaged or lost in disaster situations. The consequences of non-insurance and underinsurance can be profound, long-lasting and widespread.

Higher insurance premiums have added to the cost of living for consumers across Australia. When we commissioned research in northern Australia in 2019, we found that rising insurance premiums were prompting consumers to reduce their level of insurance cover through higher excesses or lower sums insured.

Recent disasters, such as Tropical Cyclones Kirrily (2024) and Jasper (2023) and the 2022 eastern Australia floods, continue to shine a light on growing concerns about the risks and impacts of underinsurance and non-insurance on individuals and communities.

Underinsurance typically does not reveal itself until a consumer who has some insurance experiences a loss, and then discovers that their loss is not covered fully by their policy in the way that they hoped or expected. It is nearly impossible to reliably measure in the absence of a disaster, certainly not across a community or region.

There could be a number of explanations for underinsurance, such as an inadequate sum insured, damage because of a risk the consumer was not insured against, and/or policy limits or exclusions on particular items. Underinsurance could be intentional due to premium pressure or it could be unintentional due to a consumer not understanding the coverage provided by their insurer under their chosen policy.

This submission considers policy initiatives which we consider can help consumers to make more informed choices about their insurance. In Australia, about 44% of adults have a level 1 to 2 reading level, which is equivalent to primary school level or slightly higher.⁵ It is imperative that governments and industry work together to provide typical consumers with access to information they need in a way that they can understand.

3. By ensuring there is one common product from each insurer, consumers could more easily benchmark insurers against each other

Proposals to review the standard cover regime and implement standardised definitions date back to at least 2017, when the final report of the Senate inquiry into Australia's general insurance industry recommended that the government initiate a review of standard cover and work with industry and consumer groups to develop and implement standardised definitions of key terms.⁶ The government agreed that there was merit in further reviewing these recommendations and tasked the Treasury in 2018 with assessing these proposals.

In the first interim report of our inquiry (2018), we indicated strong support for the (then) proposed review of the standard cover regime, including a proposal to introduce consistent definitions for additional key terms (which we address in section 4 of this submission).

⁵ In Australia, about 44% of adults have a level 1 to 2 reading level. People at a reading level 1 read at a primary school equivalent level. They can understand short sentences. Only 15% of adults read at level 4 to 5 (the highest level). See Australian Government Style Manual, [Literacy and access](#). Reading level statistics are attributed to ABS (2013), Australian school-level equivalents for each OECD classification level are attributed to ABS et al. (2017).

⁶ Senate Economic Reference Committee, [Australia's general insurance industry: sapping consumers of the will to compare](#), 2017, Chapter 3.

The ACCC agrees the current standard cover regime is not achieving its intended purpose

The standard cover regime exists to standardise terms and conditions of insurance contracts and protect against a lack of coverage for events that consumers might commonly expect to be covered for by their policy. However, at present, insurers are not required to provide a product fully consistent with standard cover and are only required to disclose derogations in a product disclosure statement. We do not believe these statements are well-read or understood.⁷

In a market characterised by robust competition and well-informed consumers, insurers' freedom to derogate from standard cover would (in theory) allow insurers to offer the variety of policies that consumers demand, to the benefit of consumers.

However, markets for insurance are challenged by a high degree of complexity and opacity. We do not consider that most consumers are able to confidently assess and identify what they need and effectively differentiate between seemingly comparable policies. Even if a consumer is willing to invest that time to search for alternate insurance options, the complexity and opacity of insurance markets makes it harder than it should be for consumers to understand their choices and find a suitable product.

As an illustration of this, we estimated in the Northern Australia Insurance Inquiry that it could take a consumer over five hours to provide all the information required to obtain three online quotes and to read the full product disclosure statements for three combined home and contents insurance products.⁸ Our own review of product disclosure statements and key facts sheets for a range of insurance products supplied in northern Australia found that policies did differ from standard cover.⁹ In particular, they had varying exclusions and limitations on coverage, meaning that a consumer would need to carefully read the product disclosure statement to identify how the policies differed.

In its 2017 research report, *Consumer research on general insurance product disclosure* the Insurance Council of Australia (ICA) found that most consumers don't read the product disclosure statement before purchasing a policy. The ICA found that most consumers believed they had considered all of the details when buying insurance, even though most did not look into exclusions and limits. While most consumers were *confident* they understood the detail of their policy, the research suggested consumers' actual understanding of exclusions and limits were poor.¹⁰

In research we commissioned in 2018, 12% of surveyed consumers in northern Australia said they were unsure if they had flood cover or not, but almost one-quarter (23%) of surveyed consumers in the rest of Australia did not know.¹¹

The above findings point to a standard cover regime that is not currently achieving its intended purpose.

⁷ The Insurance Council of Australia's research report, [Consumer research on general insurance product disclosure](#) (2017) found that most consumers don't read the PDS before purchasing a policy. ASIC's commissioned research, [Insuring your home: Consumers' experiences buying home insurance](#) (2016), found that only 2 in every 10 consumers who took out new insurance or considered switching read the PDS, but that 'reading' the PDS generally meant reading selected pages, not all of it. See also ACCC [NAII final report](#), p. 431.

⁸ ACCC, [NAII final report](#), p. 134-135.

⁹ PDSs and KFSs of insurance products reviewed in October 2020. See [NAII final report](#), footnote 520.

¹⁰ Insurance Council of Australia, [Consumer research on general insurance product disclosure](#) (2017), p. 23.

¹¹ ACCC, [NAII final report](#), p. 282.

The ACCC considers that standard cover for home and contents insurance should be revised to reflect an adequate level of cover and that insurers should be required to offer it

We consider that an obligation for insurers to offer a product consistent with standard cover would give consumers a meaningful reference point when comparing products across insurers and brands.

However, given the prevalence of insurers applying specific limitations for prescribed events (either a dollar limit on coverage, or exclusions for particular causes), and the fact that standard cover provides, in effect, total replacement cover (not limited by a sum insured), a product consistent with standard cover in its current form would likely represent an increase in cover and quality compared to most insurers' existing products and would be priced accordingly.

One of the consumer protections offered by the current standard cover product (for home building insurance) is that it provides for total replacement cover. A total or complete replacement policy will pay all reasonable costs to repair, replace or rebuild (taking into account policy exclusions). This is in contrast to an equivalent policy limited by a sum insured, which is usually cheaper) but would result in a consumer bearing any risk of underinsurance as the consumer is required to nominate the sum insured for their property.

A product consistent with standard cover in its current form may suit the preferences and budgets of some consumers, who would benefit from the certainty of total replacement cover. However, the likely cost in regions facing higher risk of natural perils may limit its appeal to typical consumers in those areas. We consider, however, that it could still have utility as a point of comparison between insurers, although it would be less useful than a product more aligned with current consumer expectations.

We also do not consider that revising standard cover to represent a 'baseline' level of insurance is the appropriate point of reference for standard cover. We strongly support insurance being available to suit a range of preferences and budgets, but a product at a 'baseline' level risks guiding more consumers to a lower level of insurance which is suboptimal. This concern is amplified if it is seen as a 'government-endorsed' level of cover.

In our Northern Australia Insurance Inquiry, we recommended that an alternative approach would be to revise the terms of standard cover to incorporate common exclusions and limitations (see Recommendation 17.2). This could result in a (relatively) more affordable standard cover product which better aligns with current consumer demand and expectations. A key element of our recommendation would be the requirement for insurers to offer this product, which would allow consumers to more effectively benchmark insurers against each other to compare value. We consider that this recommendation remains a preferred approach.

Recommendation 17.2

Review and mandate standard cover

The Treasury's review of the standard cover regime should develop a proposal to mandate that insurers offering home and/or contents insurance product(s) should also offer a home and/or contents insurance product that does not deviate (through inclusions or exclusions) from the revised standard cover terms in the Insurance Contracts Regulations.

By ensuring there is one common product from each insurer (but not necessarily each brand), consumers could easily benchmark insurers against each other. This should not limit an insurer from offering other products that provide cover that differs from the standard cover product but insurers should be required to clearly indicate how these products differ from their standard cover product

The specific product inclusions and exclusions of standard cover should be set with reference to prevailing market offerings, with a view to making standard cover provide an adequate level of coverage for a broader range of the population.

We proposed in that inquiry that insurers would continue to be able to offer other products with additional or fewer features in addition to this standard cover product. The product could include a standard excess and a sum insured cover rather than total replacement cover.

Where insurers choose to offer other products that deviate from a revised standard cover, they could be required to:

- explicitly state what features are in addition to or derogate from standard cover
- the price difference between choosing standard cover and the alternative product.

Consumers would be made aware when they select an alternative product that in doing so they are adding or opting out of certain events and the relevant premium implications.

To help new and renewing consumers make a more informed decision about which product features, excess levels and sums insured to select, we also recommended in our inquiry that insurers should be required to disclose the premium costs or saving for each optional inclusion or exclusion they offer to a consumer (see discussion of recommendation 18.6 in part 7 of this submission).

A vertically differentiated rating system may stifle innovation

In the Northern Australia Insurance Inquiry, we did not propose a vertically differentiated rating system for home and/or contents insurance, which is comparable to option 3 proposed by Treasury. Such a rating system should be approached with caution.

Whilst such an option may help consumers choose high, medium, low or baseline coverage, it may have the unintended effect of stifling the type of product differentiation and innovation that a competitive market might otherwise deliver. It may also lead to a saturation of policy types if insurers want to offer products additional to those complying with a rating system.

A revised and mandated standard cover product should also apply to contents insurance, and by extension, a combined building and contents product

Option 2 in Treasury's paper proposes to limit the effects of standard cover to home building insurance only. We consider that this would be an undesirable option.

In our Northern Australia Insurance Inquiry, we did not propose limiting standard cover to building insurance only. Instead, we proposed that a mandated standard cover product should apply to home building, contents and combined home and contents insurance products (from each insurer).

The majority of insured residential properties are insured with a combined home and contents policy. If the standard cover product was limited to building insurance products only, this would risk diluting the effectiveness of a comparative benchmark for consumers wanting to compare combined policies. It would also mean there would be no benchmark available for contents-only policies, which would be sought by renters and strata owners.

By clearly mandating a standard cover product that applies individually to home building and contents policies, and collectively to combined policies, insurers and consumers are provided with the necessary certainty of how standard cover should be interpreted and applied.

Repealing the regime would not be a preferable option

For completeness, we note that Treasury's consultation paper puts forward an option to repeal the standard cover regime in its entirety. For the reasons outlined above, we consider that improvements can be made to the standard cover regime to make it beneficial for consumers. For that reason, we do not support repealing the regime (option 1).

We also note that Treasury proposes to remove the application of standard cover to motor vehicle, personal accident, consumer credit and travel insurance. The ACCC's insurance work has not examined the application of standard cover to these types of insurance. However, we would encourage Treasury to consider a broad base of evidence and data before reaching a conclusion that the repeal of standard cover to those types of insurance is the best outcome for consumers.

4. Standardised definitions could provide greater certainty for consumers and improve the comparability of products

Consistent with our previous findings, the ACCC considers that standardised definitions of key terms would complement a revised standard cover regimes and improve the comparability of products.

Standardised definitions will enable greater certainty for consumers and improve the comparability of products

In addition to the issues identified already in this submission, a further limit on consumers' ability to make effective comparisons between policies is the lack of consistency in how insurers define certain terms. Despite setting out the events that comprise standard cover, with the exception of 'flood', the law does not define the terms used to label these events. Insurers can and do develop their own definitions, which is communicated to consumers in the product disclosure statement.

In our Northern Australia Insurance Inquiry, we indicated strong support for the government's (then) proposed review of standard cover. We recommended that the review consider standardising the definitions of prescribed events to enable greater certainty for consumers and improve comparability of products.

Recommendation 17.1

Standardise definitions of prescribed events

The Treasury's review of the standard cover regime should develop a proposal to standardise the definitions of prescribed events (including 'action of the sea', 'impacts' and 'storm') to enable greater certainty for consumers and comparability of products.

New standard definitions should be drafted in a way that removes potential gaps in coverage between prescribed events, avoids the introduction of ambiguous concepts, and does not unnecessarily limit insurers' scope for future beneficial product innovation.

The Northern Australia Insurance Inquiry recommended standardised definitions of prescribed events (generally), including 'action of the sea', 'impacts' and 'storm'. Section 17.3 of our final inquiry report highlights some discrepancies between insurers that we observed in how they defined these terms.

We note that Treasury's current consultation focuses on terms which it considers to be most problematic based on its consultation with stakeholders, and has invited feedback specifically on the terms fire, storm, and stormwater and rainwater run-off as priorities.

There is the potential that standardised definitions would result in some insurers having to raise their level of cover to meet the coverage imposed by a new definition. While this would improve coverage for consumers, it could also lead to higher premiums where insurers either choose, or may be required (under a mandated standard cover regime), to provide cover for the risk affected by the amended definition.

A well-considered consultation process that represents the views of consumers, industry and regulators could help to ensure any proposed standardised definition achieves its objectives to improve consumer outcomes.

We also note Treasury's acknowledgement of the Insurance Council of Australia's independent work to progress an industry-agreed definition of 'wear and tear', given issues that have arisen in relation to such clauses. The ACCC looks forward to engagement with industry about such clauses and consideration under relevant parts of the *Competition and Consumer Act 2010*.

5. Underinsurance can arise when consumers set their sum insured amounts too low

Underinsurance can arise because a consumer has not understood the features of their policy (for example, due to confusing definitions and derogations from standard cover), but it can also arise due to an inadequate sum insured. An inadequate sum insured could result from a consumer's lack of knowledge to accurately estimate the cost of rebuilding their home and/or replacing their contents, or it could be part of a consumer's deliberate effort to reduce their insurance premium.

Underinsurance can also arise when consumers either intentionally, or unintentionally, set their sum insured too low

In 2018, we surveyed the 'sum insured' estimator calculators provided by leading insurers in northern Australia using the characteristics of a hypothetical property in northern Australia. These calculators asked between 17 and 47 questions about the hypothetical property and returned estimates ranging from approximately \$600,000 to \$665,000. The range could, in part, be attributed to the inclusion or exclusion of an allowance for costs such as demolition,

debris removal, and engineer/architect/legal fees. These costs were generally not included in the estimated sum insured if the policy provides separate cover for these costs, however this was only apparent in the disclaimers accompanying the individual calculators.¹²

When we commissioned research in 2019 to understand the extent of, and reasons for, non-insurance, we used surveys to explore how residents of northern Australia were estimating their sum insured, and importantly, how regularly they were reviewing it. Whilst we found the majority of consumers were considering appropriate factors to inform the estimation, the results suggested some consumers were risking underinsurance. For example, of the respondents who reported asking an insurer's call centre, or using an insurer's online calculator, to help them estimate their sum insured, nearly one-fifth (17%) said that they chose a lower sum insured for their home than the one suggested to them based on information they provided. Their main reasons for doing so were cost.

Our commissioned research also reinforced concerns that rising insurance premiums were also driving some consumers to either reduce their level of cover or drop it altogether. Of surveyed consumers in northern Australia who were paying over \$4,500 per year for their insurance and reported feeling financial pressure, almost one-third (30%) reduced how much they insured their building or contents for.

At the time we undertook our Northern Australia Insurance Inquiry, we found that most claims for damage to buildings were for a partial loss and any inadequacy in the sum insured amount relative to a total loss was not necessarily clear, even following a partial loss claim. However, when a home insured under a sum insured policy becomes a 'total loss' and needs to be rebuilt, the sum insured may not be sufficient to fully replace the home. While the data we obtained from insurers suggested insurers were often paying out claims up to, and even a margin over, a consumer's sum insured, we did see some instances of clear underinsurance, where a claim pay out limited by the sum insured was only a fraction of the estimated value of the loss.

Measures to help consumers understand and estimate 'sum insured' are necessary to help address concerns about underinsurance

We made a number of recommendations in the Northern Australia Insurance Inquiry to governments and industry which we believed could help provide consumers with the information they need to better choose the level of insurance cover they need and mitigate their risk of underinsurance.

We considered that estimating the sum insured is one area where insurers could, and should, provide better guidance to consumers to lessen the risk of underinsurance. Insurers are likely to already have access to information necessary to estimate a sum insured in relation to their customers' insured buildings. As such, they should be in a position to understand if there are material differences between the sum insured a customer has selected and the amount suggested by their own sum insured calculators.

Consumers need to understand that the sum insured refers to the cost to rebuild and not the market value of their property. They also should understand that, in some cases, the sum insured may also need to cover costs involved in the repair or rebuild like debris removal, legal costs, and temporary accommodation costs. In some cases, a policy may provide separate benefits for some of these items equal to a percentage of the sum insured amount.

¹² ACCC, [NAII final report](#), p. 448

Our concerns are illustrated by an example where documents we obtained from one insurer showed it knowingly had customers that included land value in the sum insured.

The following relevant recommendations from the Northern Australia Insurance Inquiry are included in full in [Appendix A](#).

- Recommendation 18.4: Insurers should estimate a sum insured for customers
- Recommendation 18.5: Insurers should disclose costs that count towards 'sum insured'
- Recommendation 18.3: Better understand information that falls within 'general financial advice'

We acknowledge the government's recent announcement to allow insurers to provide more personalised financial advice.¹³ Reforms to modernise the advice model and allow insurers to have clearer conversations with their customers are generally consistent with the intention of the ACCC's recommendation 18.3 referenced above.

6. Consumer confusion about insurance products impedes effective competition, meaning prices could be higher than necessary

Treasury's consultation paper also asks about other consequences of consumers' misunderstanding of insurance policies. We also consider that consumers' misunderstanding could be contributing to softer competition and higher-than-necessary prices.

Consumers face high costs in searching for potential alternative products, including the length of time it takes to complete online quotes, compare product features and make relevant inquiries. Throughout our Northern Australia Insurance Inquiry, we consistently heard people say that comparing insurance policies was difficult and time consuming and that pricing was not transparent. Consumers told us they lacked confidence to compare policies and understand exactly what they were covered for under different policies.

The ability of consumers to quickly and easily switch suppliers in response to price increases or perceived service quality decreases is essential for effective, competitive markets. Assessing the switching behaviour of consumers within markets helps determine whether consumers have ready access to acceptable substitutes for a product or service and are able and willing to switch supplier.

When we considered switching rates, we made two important findings.

First, we found that despite there being incentives to shop around, switching rates in northern Australia were low. In 2018-19, the retention rate for combined home and contents insurance in 2018-19 was as high as 94% in north Queensland, 87% in the Northern Territory and 83% in north Western Australia.¹⁴

Even though customers may perceive there to be a benefit from being loyal, we found that renewing customers were paying more for insurance than new customers (between 7 and 24%) on average across northern Australia and the rest of Australia; even after taking sums

¹³ The Hon Stephen Jones MP, [Government unveils comprehensive financial advice reform package](#), [media release], Australian Government, 7 December 2023, viewed 22 March 2023.

¹⁴ ACCC, [NAII final report](#), p. 133.

insured into account (and we observed this was relatively consistent between 2012-13 and 2018-19).¹⁵

High retention rates are not necessarily indicative of limited competition. They may be a result of customer satisfaction and market leading offerings. However, if coupled with increasing prices and/or decreasing service quality, high retention rates may be indicative of high switching costs and/or lack of suitable alternatives.

Even when facing a lot or extreme financial pressure, the majority of surveyed residents in northern Australia still renewed with their existing insurer compared to getting other quotes.

This finding lends further support to the imperative of making it easier for consumers to find and compare products, such as through a revised and mandated standard cover, supported by more consistent definitions of key terms. In part 7 of this submission, we also encourage consideration of further complementary reforms to make it easier for consumers to identify and compare alternate policies.

7. Complementary reforms can better allow consumers to identify, understand, compare and choose a policy that suits their needs

Finally, Treasury's paper invites suggestions about other government and industry initiatives that may increase consumer understanding of insurance. In addition to the initiatives mentioned in section 5 of this submission, we highlight two further initiatives that may help consumers to identify, understand, compare, and choose an insurance policy.

A national insurance comparison website would complement reforms to standard cover and standard definitions

In our Northern Australia Insurance Inquiry, we recommended that a new national home insurance comparison website could facilitate more informed consumer choice by assisting consumers to quickly and easily identify insurers in their area and offering policies that meet their needs (see Recommendation 18.7: National home insurance comparison website in Appendix A). Whilst we did not make this recommendation contingent on the adoption of a revised and mandated standard cover product, we discussed that a mandated standard cover product, and standardised definitions, would significantly improve the utility of a comparison website.

Comparison websites can provide an opportunity for new entrants to increase consumer awareness of their brand at relatively low cost, reducing a barrier to entry. Enhanced comparability of products, such as through standardised definitions and mandated standard cover, would assist in the effectiveness of such a website.

We acknowledge concerns that insurance comparison websites may have the potential to over-simplify the decision and lead consumers to focus their attention on price, rather than important differences in policy cover and terms and conditions.¹⁶ However, we consider that these concerns can likely be managed through thoughtful website design (and also facilitated by mandated standard cover).

Reforms to increase consumers' ability to compare and switch between insurance products would also enhance competition. Insurers would face a greater competitive constraint on

¹⁵ ACCC, [NAII final report](#), p. 231.

¹⁶ See for example, [Allianz submission](#) to the Senate inquiry into Australia's general insurance industry, p. 1.

their ability to apply upwards premium adjustments, which we found to be a strategy used by insurers in northern Australia (and potentially other markets characterised by soft competition).¹⁷ Increased competitive pressure may also limit the use of price optimisation to increase premiums in northern Australia, and to differentiate between new and renewing customers.

A number of commercial comparison websites operate to reduce search costs for insurance products, but these websites only provide quotes for participating insurers, not all insurers. In 2018, only two of the eight insurers who (at the time) held the largest market shares in northern Australia had arrangements with commercial comparison websites.¹⁸

Measures to help consumers understand key pricing components would help consumers choose a policy which meets their needs

Consumers with a clear understanding of the pricing components of their insurance products are likely to make more informed and confident decisions and have an improved capacity to shop around and switch insurers.

In our Northern Australia Insurance Inquiry, we found that consumers had very poor visibility over the components of premium pricing, and it was difficult for consumers to determine or easily compare the price impact of optional policy inclusions and exclusions (such as flood, accidental breakage cover or extended replacement policies) which are available in home and contents policies. We are concerned this contributes to consumer confusion.

To help new and renewing consumers make a more informed decision about which product features, excess levels and sums insured to select, we recommended that insurers should be required to disclose the premium costs or saving for each optional inclusion or exclusion they offer to a consumer (see recommendation 18.6 in [Appendix A](#)).

8. Concluding remarks

Consumers face high costs in searching for potential alternative products, including the length of time it takes to complete online quotes, compare product features and make relevant inquiries. Even if a consumer is willing to invest the time to search for alternate insurance options, the complexity and opacity of insurance markets makes it harder than it should be for consumers to understand their choices and find a suitable product.

Well-considered reforms to help consumers understand insurance and enhance the comparability of products can help to promote more confident and informed decision making, reduce the risks of unintentional underinsurance, and promote greater competition in insurance markets.

The ACCC continues to support reforms to review and mandate standard cover and to standardise definitions, consistent with recommendations that we made in Chapter 17 of our Northern Australia Insurance Inquiry final report.

We remain of the view that insurers offering home and/or contents insurance product(s) in Australia should be required to offer a home and/or contents insurance product that does not deviate (through inclusions or exclusions) from the (proposed) revised standard cover terms in the Insurance Contracts Regulations. By ensuring there is at least one common

¹⁷ ACCC, [NAII final report](#), p. 252.

¹⁸ ACCC, [NAII final report](#), p. 452

product from each insurer, consumers could more easily benchmark insurers against each other.

This should not limit an insurer from offering other products that provide cover that differs from the standard cover product but insurers should be required to clearly indicate how these products differ from their standard cover product. They also should be required to disclose greater information about sums insured, and the premium impacts of any optional inclusions and exclusions.

These reforms (along with standardising terms) have the potential to significantly improve demand side competitive pressures in insurance markets.

We also continue to advocate for measures to improve the affordability of insurance, which we consider is at the heart of addressing concerns about rising rates of underinsurance and non-insurance.

Appendix A: Most relevant recommendations from the ACCC's Northern Australia Insurance Inquiry referred to in this submission

Recommendation 17.1

Standardise definitions of prescribed events

The Treasury's review of the standard cover regime should develop a proposal to standardise the definitions of prescribed events (including 'action of the sea', 'impacts' and 'storm') to enable greater certainty for consumers and comparability of products.

New standard definitions should be drafted in a way that removes potential gaps in coverage between prescribed events, avoids the introduction of ambiguous concepts, and does not unnecessarily limit insurers' scope for future beneficial product innovation.

Recommendation 17.2

Review and mandate standard cover

The Treasury's review of the standard cover regime should develop a proposal to mandate that insurers offering home and/or contents insurance product(s) should also offer a home and/or contents insurance product that does not deviate (through inclusions or exclusions) from the revised standard cover terms in the Insurance Contracts Regulations.

By ensuring there is one common product from each insurer (but not necessarily each brand), consumers could easily benchmark insurers against each other. This should not limit an insurer from offering other products that provide cover that differs from the standard cover product but insurers should be required to clearly indicate how these products differ from their standard cover product.

Recommendation 18.3

Better understand information that falls within 'general financial advice'

The Insurance Council of Australia should engage with ASIC to gain a clearer understanding about the nature and type of information insurers can give to consumers within the meaning of providing general financial advice.

This would ensure that insurers are not refraining from providing general information, for example about rebuilding costs and building valuations, which would assist a consumer make an informed decision about their own situation.

Recommendation 18.4

Insurers should estimate a sum insured for customers

Insurers should be required to estimate an updated sum insured for their home insurance customers and advise them of this estimate on their renewal notice.

This estimate should note when the information used by the insurer to form the estimate was last updated by the consumer, and direct the consumer to contact the insurer if renovations/alterations to their home had occurred since then. Where the sum insured estimate is materially higher than provided for under the policy, the renewal notice should also include a warning to the customer about the dangers of their property being underinsured.

Advice given by an insurer fulfilling this obligation should be excluded from being considered personal financial advice.

Recommendation 18.5

Disclose costs that count towards 'sum insured'

Insurers should be required to clearly disclose the types of costs that will count towards the sum insured amount for buildings (such as the costs of demolition, debris removal or for professional fees) where these are not provided for through a separate allowance under the policy. This information should be provided on any sum insured calculators used by the insurer and alongside the sum insured figure.

This will help consumers understand why and how calculator estimations can differ and empower them to make more informed decisions about their nominated sum insured. It should be provided alongside the sum insured amount for a property, including in quotes for new policies, renewals and on certificates of insurance.

Recommendation 18.6

Disclose premium impacts of optional inclusions and exclusions

Insurers should be required to disclose the premium cost or saving for each optional inclusion or exclusion they offer to a consumer. Insurers should also indicate the premium cost or saving associated with incremental changes in excess levels and sums insured. This information should be provided to a consumer when an insurer provides a quote for a new policy and on a renewal notice.

Providing consumers with information about the cost impact of optional inclusions and exclusions (e.g. flood cover, accidental breakage cover) as well as variable costs (such as changing an excess or sums insured) will allow consumers to make more informed decisions about their choice of cover.

Recommendation 18.7

National home insurance comparison website

The Australian Government should consider developing a national home insurance comparison website. It should require the participation of all insurers active in relevant markets, allow consumers to compare policies by features, and make it quick and easy for consumers to act on the results.

An independent insurance comparison website may facilitate more informed consumer choice by assisting consumers to quickly and easily find insurers in their area and offering policies that meet their needs. Comparison websites can provide an opportunity for new entrants to increase consumer awareness of their brand at relatively low cost, reducing a barrier to entry. Enhanced comparability of products, such as through standardised definitions (recommendation 17.1) and mandated standard cover (recommendation 17.2), will assist in the effectiveness of such a website.