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Manager

Insurance and Financial Services Unit

The Treasury

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Insurance Australia Group (IAG) welcomes the opportunity to provide feedback on the Disclosure in General Insurance: Improving Consumer Understanding Discussion Paper (2019).

#### **About IAG**

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. 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.

As an organisation, IAG has a long history of working proactively to support the communities in which we operate. This role extends beyond providing insurance cover and paying claims, to raising awareness of insurance and risk, and helping communities prevent avoidable damage and mitigate loss. IAG has embedded a shared value strategy within our business by undertaking programs and projects that focus on building social and economic resilience. We recognise that Australian home owners need transparent, easy-to-comprehend information about insurance to help them better protect their homes, valuables and loved ones. We take this into account when approaching our communications to our customers. For example, after performing in-depth customer research and surveys we redesigned the NRMA motor renewal policy to ensure this document was clearer, easier to read and highlighted relevant information to customers.



To supplement our formal communications, we have available online resources such as the Hub at [thehub.nrma.com.au](http://thehub.nrma.com.au) and the Safer Homes websites at [saferhomes.nrma.com.au](http://saferhomes.nrma.com.au), which provide valuable information to consumers and the community. These resources allow them to educate themselves on common causes of claims, tips to keep themselves and their assets safe as well as understand the right level of insurance for their needs and risk levels.

Despite all this, there is significant potential to improve the current disclosure and advice regime in the general insurance context with the aim of helping consumers to better understand products. IAG supports the general insurance sector, in partnership with governments and consumers, developing proposals for modernising disclosure and advice in a way that is tailored for general insurance. Insurers have a role in assisting consumers to understand the cover they need and educating consumers about risk, and IAG is continually exploring new and more effective ways of doing this which are set out later in this submission.

We know that the growth of online shopping and access to vast amounts of information online means that consumers are now more likely to shop around and compare products and prices, including financial products. However, the preference for seamless multi-channel interactions creates challenges for insurers and regulators in ensuring consumers also get the information they need at the right time.

Governments can support this objective with reforms to streamline the existing framework to avoid unnecessary duplication and overlap of obligations. Access to government natural perils data and building codes information is also integral to improving guidance and disclosure in the general insurance context.

The best approach to reform is to continue working with Government, regulators and consumer groups to shape industry practices to ensure fair treatment of customers. IAG has committed to working with members of our Consumer Advisory Board on this issue. Better outcomes are likely to be achieved by continuing with a constructive and collaborative approach to reform rather than with a prescriptive regulatory regime which has historically led to what we see today: overly complex, lengthy and unhelpful disclosure documents.

IAG agrees with the submission of the Insurance Council of Australia (ICA) and provides the following additional comments.



## **Premium increases and component pricing included in renewal notices**

### **Year on year premium**

IAG supports the need for strengthening the transparency of general insurance pricing by amending the product disclosure regime in the *Corporations Act 2001* to require insurers to disclose the previous year's premium on insurance renewal notices. IAG acknowledges the importance of this information to the customer and is undertaking work to introduce year on year premium comparison for retail insurance property, contents and motor vehicles nationally.

### **Explaining premium increases**

IAG supports in principle the recommendation to explain premium increases when a request is received from a policyholder. However, there are practical difficulties with providing a detailed explanation on each policy as the components of a premium are so complex that it would be extremely difficult to explain in way that a non-expert customer could understand. IAG welcomes the opportunity to explore the parameters involved in effectively implementing this recommendation further.

### **Component pricing**

IAG understands there are two aspects to components that make up an insurance price. The risks that go into informing the price, and everything else, including taxes, levies and reinsurance. IAG supports further exploration of what components of a price might be most useful and practical to provide to consumers however, there are many risks and challenges with component pricing. One concern is a risk of greater levels of underinsurance, as consumers opt-out of insuring for low frequency high impact scenarios to lower premiums. Another is that it is not clear how valuable this information would be to consumers.

What does seem clear is that the benefits of risk-based component pricing to consumers would be limited unless it was part of a broader conversation on the ways consumers can mitigate their risk. IAG has consistently supported the need for mitigation to reduce the impact of events, most notably through work on the Australian Business Roundtable for Disaster Resilience & Safer Communities which has examined the cost of natural disasters against the cost of mitigation work.



### **A modern approach to disclosure**

IAG continues to lead the discussion with consumers using different approaches to engage customers, assist them identify their risks and undertake mitigation activities where possible. Examples of some of these approaches include:

- In partnership with James Cook University, IAG and Suncorp, strata and home property claims from Tropical Cyclones Marcia and Debbie were analysed to investigate potential mitigation measures to make homes in North Queensland more resilient. The findings of the report were released publicly<sup>1</sup>.
- The Queensland State Government in conjunction with the Federal Government announced a Household Resilience Program in August 2018. This program provides eligible home owners living in a pre-determined area recognised as a cyclone risk with grants to assist them in making their homes more resilient through various improvements / mitigation works (e.g. roof replacement, upgrade or roof tie-down). At the completion of the mitigations works, customers contact IAG to request a reduction in their premium based on works performed their risk. Further programs such as this would be of interest to IAG.
- NRMA Insurance (an IAG brand) provides online tool, Safer Homes<sup>2</sup> which helps improve consumers' understanding of insurance by setting out the risks faced in their local area. The Safer Homes website also links to the NRMA Insurance sum insured calculator, providing information on the average sum insured for building and contents in the area along with the cost of claims for certain risks over the past five years and simple tips to help protect homes against the identified risks.
- To improve understanding of our products by people with English as a second language, a short form PDS clearly shows consumers coverage and exclusions by applying translations to each element and using ticks or crosses, as these are universally understood. The document is an overview resource to show customers what options they have. Human centred design assisted our understanding as to what information customers need to make decisions about insurance which was used to guide the design. The way we present this information also considers cultural differences which impact the ways we engage with consumers. This information is provided in addition to the long form PDS and KFS.

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<sup>1</sup> [www.iag.com.au/wind-driven-rain-drives-damage-costs](http://www.iag.com.au/wind-driven-rain-drives-damage-costs)

<sup>2</sup> [www.saferhomes.nrma.com.au/](http://www.saferhomes.nrma.com.au/)



Further, IAG has a range of general and targeted approaches for the communication of pricing, claims and risk information to our customers and the broader community.

### **General price changes**

Customers who would like information on premiums and why they change over time are able to call our frontline consultants who can provide general information on:

- How insurance premiums are calculated
- The key pricing factors which impact premiums (also listed on policy documents)
- General information on the drivers of premium changes
- Specific changes to the customer's policy which may have resulted in a premium change, for example, changes to loyalty discount level, changes to no claim bonus level or changes to policy coverage, (i.e. excess, sum insured, etc.).

For circumstances where general premium information is insufficient, the frontline consultant will refer the enquiry to Customer Relations who have processes to obtain further information on pricing factors including flood or bushfire risk rating.

### **Targeted customer communication**

When there has been a large price change for a policyholder following a significant change in their risk profile and/or where there has been a structural shift in overall industry claims experience, IAG will provide additional targeted information to those impacted customers. Flood risk rating communication is an example of this.

Since IAG launched flood cover, regular data updates have been a feature of IAG's approach to assessing and pricing flood risk. As flood data evolves and cover becomes more targeted, more accurate flood risk assessment are typically available every six months.

This means that as their flood risk assessment changes some customers will experience larger changes in their base premium. For these customers, a cover letter is sent with their renewal documents to explain the change in base premium.

### **Online resources**

IAG has a variety of online resources which provides customers and the community with useful articles, videos



and information on common causes of claims and tips to keep themselves and their assets safe.

Within our NRMA Insurance brand, we have an online resource called 'The Hub'. This resource is accessible at The Hub <http://thehub.nrma.com.au>, it includes articles on the common causes of claims, innovative ways we are helping the community reduce risk and further information on our products.

In 2016, we launched a national report and mapping tool, *At What Cost? Mapping where natural perils impact economic growth and communities* to promote better understanding of the full costs and risks associated with natural perils in Australia<sup>3</sup>. Progress has been good, but there is more work to be done and we would welcome the opportunity to work further with the government to enhance climate adaptation and resilience in Australia.

While IAG has developed innovative ways of improving the ways in which information is presented to consumers, the outcomes for customers who purchase insurance often remains poor. IAG believe that the key to reforming the approach to disclosure is by moving beyond optimising the PDS and KFS to understanding how consumers make decisions in context and what the outcomes of these decisions are. By leveraging applied behavioural science, IAG supports improving decision-making and outcomes for consumers and the business alike.

IAG believe the key to reforming the approach to disclosure is by starting with customer outcomes, identifying how we can help consumers make better choices and decisions. Moving to a principles-based approach to disclosure, away from style and form requirements, along with a review of the general advice model in the *Corporations Act* offers room for insurers to develop improved ways of communicating with consumers with more sophisticated discussions on the nature of the risks and ways to mitigate them.

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<sup>3</sup> [www.sgsep.com.au/news/latest-news/what-cost-mapping-where-natural-perils-impact-economic-growth-and-communities](http://www.sgsep.com.au/news/latest-news/what-cost-mapping-where-natural-perils-impact-economic-growth-and-communities)



IAG welcomes the opportunity to discuss anything raised in this submission further. Please contact Louise Kerkham, Principal, Public Policy and Industry Affairs on 02 9292 1206 or Victoria Davis, Principal, Public Policy and Industry Affairs on 02 9088 9527.

Sincerely

A handwritten signature in black ink, appearing to read 'Mark Milliner', written in a cursive style.

Mark Milliner  
Chief Executive Officer, Australia Division