



One Company
Many Brands



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Senior Adviser
Financial System and Services Division
The Treasury
Langton Crescent
PARKES ACT 2600
fsi@treasury.gov.au

Dear Senior Advisor,

Financial System Inquiry Final Report - Consultation

This response is lodged on behalf of Suncorp's General Insurance businesses. Operating some of the country's most trusted insurance brands, Suncorp is one of the leading general insurance groups in Australia. We offer a range of personal and commercial insurance products, protecting the financial well being of millions of Australians and businesses. As a Group, Suncorp employs over 15,000 Australians and has more than nine million customers across Australia and New Zealand. In our Australian Commercial and Personal Insurance business lines alone, Suncorp paid out \$5.2 billion in insurance claims, averaging more than \$14 million each day, in 2013-14.

Suncorp welcomes the Final Report of the Financial System Inquiry (FSI) and commends the important work of the Inquiry.

Suncorp supports the Insurance Council of Australia's (ICA) response to the FSI Final Report consultation that complements this letter. Further to the ICA response, Suncorp wishes to highlight the progress that we have already made as an individual insurer in regards to recommendations 23 and 26 within the report, relating to disclosure and consumer guidance, and highlight our experience with the current financial advice regime.

Suncorp agrees that disclosure practices need to better inform consumers about personal insurance products. New and emerging technologies, as well as an improved understanding of consumers through disciplines such as behavioural economics, provide significant opportunities to develop new ways of thinking about disclosure.

However, innovation in this space will be driven by individual companies and the broader industry. In the short term, any government intervention should be focused on streamlining regulatory requirements to make this transition easier. Introducing more prescriptive regulation will stifle the ability of industry to pursue new and innovative methods for providing information to customers.

An initial focus for regulatory review should be the financial advice provisions for insurance, which limit the ability of insurers to assist consumers to understand our products.

Financial institutions, including insurers, need to be given the time and opportunity to research, design and prototype possible changes to disclosure models. Product and process changes require significant time, resources and testing to ensure they deliver the desired effect for both customers and the business. History is littered with projects that underperformed initially but became successful as they were refined. Consumer protection must come first at all times, however organisations must also be provided enough space to pursue new concepts around disclosure and transparency, especially given the complexity of the current regulatory arrangements.

As such, Suncorp also welcomes the FSI's support for Australian Securities and Investment Commission's (ASIC) current pilot project, which provides individual exemptions to allow innovative communication of mandated product disclosure information.

Guidance and Recommendation 26

Suncorp has already made significant progress toward addressing the specific issues raised in recommendation 26 regarding underinsurance. We recognise the importance of providing guidance to consumers on the likely replacement value for home building and contents for the purpose of insurance. Our replacement cost calculators have been upgraded to improve their accuracy, and we are committed to continually improving their operation.

Importantly, these calculators are now fully integrated into our insurance policy system used for the key AAMI, GIO and Suncorp insurance brands. This means the calculator estimate is offered automatically, and involves no additional consumer action outside of Suncorp's standard quote process. This ensures that all new customers have the necessary information available to assist them in making an informed decision. A minimum sum insured is also imposed, based on the calculator, to manage deliberate or extreme underinsurance.

Upon renewal of a policy, the sum insured is re-estimated through the calculator and adjusted automatically. This allows for improvements in the accuracy of calculator estimates to be reflected in the renewal sum insured. The increase is, however, rate limited to manage dissonance with the customer's perception of cost inflation. We have found that customers can perceive large changes to be a commercial tactic and this often results in requests to reduce their sum insured back to original levels, with no allowance for inflation.

Suncorp believes these changes will make a significant difference in addressing underinsurance, acknowledging that refinements in this area will be a continual process and further upgrades to the calculators are already scheduled.

Suncorp is also actively pursuing opportunities to engage with consumers outside of the traditional insurance relationship in order to provide our customers with meaningful and timely communications, including direct campaigns targeting customers that may be underinsured. For example, we have significantly increased our outbound customer contact activity to get in touch with our customers at the right time to talk through their insurance arrangements and ensure they have their desired level of cover. Development of new applications also allows Suncorp to engage more proactively with consumers by providing anytime anywhere access to insurance and claims while also guiding consumer behaviour through reward mechanisms like the AAMI Safe Driver app.

Advice

Suncorp believes general insurance advice should be managed under a separate set of requirements than those applied to higher risk financial products, such as managed investment schemes.

Suncorp is passionate about the value of personal advice, and has maintained personal advice models within our niche brands of Apia and Shannons. Both our customers and our staff recognise the wealth of experience and knowledge that an insurance consultant has to offer.

Multiple research projects, including ASIC's recent review of home insurance sales¹, have also posited that consumers would benefit from more tailored advice.

¹ *REP 415 Review of the sale of home insurance*, Australian Securities and Investment Commission..

However, the cost and administration implications have been significant. Whilst we are interested in providing personal advice via our mass market brands such as AAMI, GIO and Suncorp Insurance, the current regulatory environment is complex and costly and acts as a significant barrier.

These regulations have clearly led to the majority of general insurers adopting a 'no advice model'. Removing or reducing some of the regulatory impediments to the provision of advice would better enable our experienced staff to share their insurance knowledge with our customers. This will lead to a better consumer understanding of the risks they face and the insurance options available to manage that risk.

Disclosure

In regards to recommendations 23 and 26, Suncorp supports the finding of the inquiry that *"[m]andated product disclosure requirements, which set form and content requirements, are impeding issuers from developing innovative approaches to communicating disclosure information. With technological developments, such as those enabling online financial services, consumer expectations have changed, but the current regime inhibits the ability of firms to meet these expectations."*²

Suncorp is committed to taking part in the ICA's disclosure taskforce to examine the interrelated issues impacting disclosure and develop a path forward for the industry. However we note that responsibility and flexibility must remain for individual insurers to better meet their customers' needs through new approaches to disclosure.

Alongside this work, Suncorp are also examining options to prototype different approaches to disclosure through the Good Insurance initiative, including the possibility of working with ASIC on their pilot programme. Good Insurance is a joint project between Good Shepherd Microfinance and Suncorp. The initiative aims to custom build personal insurance products for the 19.4 percent of Australians over 18 who are estimated not to have a general insurance product³ and are excluded from the personal insurance market because the current products do not meet their needs.

Good Insurance will offer a suite of products covering contents and, motor insurance, and will require changes to traditional distribution, disclosure and claims handling services to be successful.

Suncorp looks forward to integrating the successful learnings from this project into our other products, services and processes where there is a clear consumer and business benefit. However, we note that this process is likely to take a significant commitment of time and resources given the scale of change suggested by the FSI.

We hope the above information has provided a useful update on the progress that has already been made in regards to the FSI recommendations affecting general insurance products. Should you require further information or have any questions please do not hesitate to me on 02 8121 0277 or at duncan.bone@suncorp.com.au.

Yours sincerely,



Duncan Bone
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General Insurance, Suncorp

² *Financial System Inquiry Final Report*, p 214.

³ *Measuring Financial Exclusion in Australia 2013*, Centre of Social Impact, p 24.