

8 March 2019

Manager
Insurance and Financial Services Unit
The Treasury
Langton Crescent
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By email: insurancedisclosure@treasury.gov.au

Dear Sir or Madam

Insurance Claims Handling

This submission is in response to the consultation document on the above topic. Our apologies for missing the deadline. More information about Finity and our purpose in making the submission is provided at the end of this letter.

Introduction

The way the issues and proposals are discussed starts from a presumption that goes against all of the evidence. The evidence quoted in the paper shows overwhelmingly that disclosure, no matter how it is done, will not help the majority of consumers be better informed or make better decisions about general insurance products.

There is now some solid research evidence and we should start from that evidence in reconsidering the policy approaches.

We need to move past the paradigm of disclosure being a central plank of consumer protection in general insurance. To the extent that further consumer protection is needed, additional or difference disclosures are not the answer; other measures such as the standard cover regime will be more successful. The forthcoming Product Design and Disclosure obligations are also directly on point, as they aim to prevent inappropriate sales before they happen, rather than expecting consumers to make decisions based on information that most do not read or understand, and don't want to read or research. The more vulnerable customers are those least likely to use the disclosures to inform their decisions.

Premium increases

We do not have a strong view about the merits of showing the previous premium on a renewal notice. It may do no harm, other than increase expense costs for insurers, but it may also do no good in achieving better outcomes for consumers. The most important need will be for an insurer to identify changes in coverage since the previous renewal, such as moving house or adding a young driver. While this not inherently difficult it will require system changes that have a cost.

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Explaining premium increases in a way that is meaningful to an individual consumer is not possible. The extent of pooling involved with insurance pricing and the limitations on the accuracy of risk assessments will make most explanations unhelpful for consumers. For example it is not going to satisfy any consumer to be told that 'more thefts have occurred', or, 'the price of repairs has increased' when they have not had a claim. Even more remote would be 'the cost of our reinsurance has increased due to market hardening'. The degree of pooling inherent in insurance does not assist any individual consumer in making a decision about their specific circumstances.

It would be reasonable, however, for the Code of Practice to require a meaningful explanation to be given to a consumer who queries a large price increase.

Component pricing

In our view any requirement for component pricing will be counter-productive. It will be complex and confusing. Given the research about the limited benefits of disclosures we cannot see how this provides any consumer benefit.

A consumer told that this is the amount of the premium for a peril such as bushfire may well believe their property is not prone to bushfire and ask to have a cover without bushfire. Given the lack of awareness and interest in the specifics of insurance products (quite understandable) the information will only increase confusion among consumers.

The cost to insurers will be high, to achieve little or no benefit. Developing and explaining the relevant components across the range of products and circumstances is a very big task, as is attempting to communicate the information in any meaningful way.

There is likely to be a significant increase in call centre enquiries for no meaningful gain. We expect many more consumers would be dissatisfied with the response than would be satisfied.

The Standard Cover Regime

The standard cover regime introduced in 1984 is one of the most effective consumer protection measures available for general insurance products. It ensures suitable products are provided to consumers, rather than relying on disclosure or consumer knowledge to make sure inadequate products are not on the market. It is unfortunate that virtually no refresher or update work has been done in many years.

It should be a straightforward task to update the standard cover specifications. This method can also be linked with a basic system of grading of products. Together with a bit of standardisation of words, it can be made reasonably clear whether a product is a 'basic' or 'premium' product.

If standard cover comparisons or derogations are not sufficiently clear then the answer is to make them sufficiently clear.

Definitions of key terms

While there is some merit in seeking standardisation of definitions of key terms this activity is not dealing with important consumer problems. The cost-benefit equation of this activity is unfavourable and efforts would be better placed in other areas of consumer protection.

The flood definition was an exception, because the boundary of 'flood' or 'not flood' is so important for any coverage with a flood exclusion. It seems an extraordinary decision at the time that ACCC would not permit use of a standard definition and that an amendment to the Insurance Contracts Act was needed. The greatest benefit to consumers was the widespread move to make flood cover a standard **inclusion** in home contracts. Policyholders in high-risk areas were faced with a clear choice and, if they have chosen to buy insurance without flood cover, they are able to do so with awareness of the choice they have made.

The recent issues in Townsville are deriving mainly from small business insurance, where the same market progress has not been made as it has with home insurance.

The Key Facts Sheet

The KFS was introduced as a shorter form of disclosure following dissatisfaction with the effectiveness of the PDS being a longer form of disclosure. The concerns being expressed now are because disclosure is not an effective consumer protection in general insurance, not because the PDS or the KFS is poorly designed or executed.

The documents (especially the PDS) are important because they define the contract between the insured and the insurer. They must be readily available and as easy to understand as is practical given the technical complexity of the subject matter. Code of Practice or ASIC action to get insurers to improve the readability of a PDS would be a reasonable response. Some insurers have made good progress with Plain English. The legal emphasis on precise compliance is, however, an impediment that we can do without.

Digital Disclosure

As with many aspects of modern society it is absurd that out-of-date laws or regulations prevent consumers having the advantage of using the variety of new technologies that are emerging each year. While we have not tried to identify the specifics it is a high priority for the insurance laws and regulations to have a simple change that facilitates use of digital technology to achieve the same purposes.

About Finity

Finity Consulting is an independent analytics and advisory firm with deep domain expertise in the general insurance industry. We make submissions of this kind in the public interest so that the value and effectiveness of general insurance to the community and economy can be as good as reasonably possible.

Should you wish to discuss any aspects of this submission please contact Geoff Atkins on 02 8252 3337 or geoff.atkins@finity.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to be "Geoff Atkins", written over a white background.

Geoff Atkins