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Dear Sir/Madam

**DISCLOSURE IN GENERAL INSURANCE: IMPROVING CONSUMER UNDERSTANDING DISCUSSION PAPER  
January 2019**

The National Insurance Brokers Association of Australia (**NIBA**) appreciates the opportunity to make this submission in response to the discussion paper.

NIBA is the industry association for insurance brokers across Australia. The association has around 350 member firms, employing over 4,000 insurance brokers in all States and Territories, in the cities, towns and regions of Australia.

**ABOUT INSURANCE BROKERS**

Insurance brokers work with their clients to assist them to:

- understand and manage their risks, including the risk of loss or damage to property as a result of adverse weather or other climate related events;
- obtain appropriate insurance cover for their risks and their property; and
- pursue claims under their policies when an insured event occurs, in which case the insurance broker becomes the advocate for the client during the assessment and resolution of the claim.

Insurance brokers act primarily for and on behalf of their client, and they owe legal duties to their clients for the nature and quality of the work they perform on their behalf. When acting for and on behalf of the client, insurance brokers do not SELL insurance policies – they PURCHASE insurance policies on behalf of their clients from the markets available to them.

In some cases, insurance brokers may provide services for insurers under agency arrangements.

**EXECUTIVE SUMMARY**

NIBA supports the proposition that “a fair and well-functioning insurance sector requires consumers to be well-informed”. Information asymmetries between an insured and an insurer can hinder the insured’s decision-making because of their lack of understanding about premium pricing, policy coverage and personal risk. This in turn, leads to poor consumer outcomes, either in the form of inflated premiums, underinsurance, or coverage that is inappropriate for their needs.

The simplest way to address this information asymmetry is to obtain personal advice from an insurance broker. In such a case, the issues identified in the Discussion paper fall away for a consumer.

It is only where a customer is left to deal with an insurer directly that information asymmetry arises as consumer is left to *rely on the information provided by the insurers and their agents who do not act on behalf of the consumer*, and their own research.

In terms of the issues raised:

### **Renewal notification of changes in premium and component pricing**

NIBA's main concern is that an exemption should apply where personal advice is provided to a client by an insurance broker acting on the customer's behalf. In such a case the customer's interests are represented. The consumer also receives the protection of statutory and common law duties on the broker to act in the best interests of the client at all times.

Insurance brokers representing a customer receive the insurer's renewal information and consider this in providing personal advice on renewal. In most cases, insurance brokers will include the insurer's information in their own renewal advice documentation (not in the same form as that of the insurer's renewal document sent to the broker). The broker's documentation is designed to be more consumer friendly and meet the insurance broker's own duty of care to the client regarding renewal issues.

To require insurance brokers to provide the insurer's document itself would cause a change to such arrangements and create additional unnecessary cost to brokers and ultimately the customer for no real benefit given the broker has greater obligations than insurers regarding renewal information.

Generally, NIBA has no issue with premium comparison on the renewal notice of insurers. See comments below on various issues NIBA has identified in response to the questions.

NIBA believes that the message at renewal should be:

- consider if the cover remains appropriate for your needs – with the insurer required to focus a consumer's mind on key aspects of cover that should be reconsidered at renewal e.g excess levels, limits, affordability etc.
- consider if equivalent cover is available from other insurers i.e. shop around. The customer should be specifically advised not to focus only on price.
- If you need help, consider obtaining personal advice from an insurance broker.

### **Standard cover**

NIBA believes the regime needs amendment. In summary, standard cover is only part of the solution but what it can add to the mix is to seek to set a clear level of cover that is a balance between community expectations and what underwriters can practically deliver, that if purchased by a person who reads nothing, is acceptable from a community standard perspective. The challenge is getting the right balance and setting up a group trusted by all in this regard that is likely to achieve a fair balance.

Insurers should not be forced to only provide this level of cover as it would stifle competition and some eligible target markets may only need limited forms of cover and would be prejudiced if this were the case.

However, if they don't, a warning (that no consumer can miss) must be included on the front page that they are on notice and a clear explanation provided of why not and the impact. A requirement could also be imposed that makes the insured acknowledge their decision before purchasing less than standard cover and the impact of this and advises them of the option to seek personal advice from an insurance broker. Such insurers might also be required to notify ASIC of when this is the case. ASIC can then consider the value of the product under its product intervention powers and shut down any poor performers.

See comments below on various issues NIBA has identified in response to the questions.

### **Standard Definitions**

May be appropriate if problem areas are identified and it is reasonable to apply such definitions. This could be considered as part of the standard cover review process. For definitions that will not be compulsory, insurers that adopt different definitions should provide a warning and an explanation of why it is different and the impact.

See comments below on various issues NIBA has identified in response to the questions.

### **KFS**

NIBA has raised concerns on the oversimplification of what is covered by the relevant policies in KFSs and the potential to mislead consumers into policies that do not meet their needs. In our view, if the Standard cover regime as proposed by us above is introduced, such a document with summaries of cover would be of little added value.

What might be of more value is mandated guidance content, after appropriate consultation with key stakeholders on what insureds should generally consider in relation to making a decision in relation to Home Buildings and Contents policies. In effect an education tool. Similar tools could be developed as part of the Standard cover review process.

See comments below on various issues NIBA has identified in response to the questions.

### **Disclosure generally**

The legal and licensing framework already requires extensive disclosure to consumers. We know from the work of the Insurance Council of Australia (Too Long, Didn't Read) that this process does not work.

The respondents to this Consultation Paper are mostly not qualified to provide the guidance the Government needs to receive on these issues. That guidance must come from consumers themselves, via extensive and carefully undertaken market research. We all need to understand what consumers want to know, when they want to receive this information, how they wish to receive the information, and how they are likely to process the information before making a decision to proceed with the purchase of insurance cover. It is only in this way that truly effective disclosure can be identified, and cost-effective provision of information in a genuinely useful manner will be determined.

### **Detailed comments**

The **NIBA Discussion Paper Attachment** sets out our comments on the recommendations made in the Senate report that relate to the disclosure regime as well as our response to each of the Consultation Questions.

If you have any questions in relation to this submission, please do not hesitate to contact me.

Yours sincerely,

Dallas Booth

Chief Executive Officer

National Insurance Brokers Association of Australia

## NIBA DISCUSSION PAPER ATTACHMENT

### SENATE COMMITTEE'S RECOMMENDATIONS

The Senate Committee's recommendations that relate to the disclosure regime were as follows and NIBA makes the following comments in relation to each:

- Strengthening the transparency of general insurance pricing by amending the product disclosure regime in the *Corporations Act 2001* (Corporations Act) to require insurers to:
  - disclose the previous year's premium on insurance renewal notices; and

No issue from NIBA's perspective provided an exemption applies where personal advice is provided to a client by an insurance broker acting on the customer's behalf. In such a case the customer's interests are represented. Insurance brokers representing a customer receive the insurer's renewal information and consider this in providing personal advice on renewal.

In most cases, insurance brokers will include the insurer's information in their own renewal advice documentation (not in the same form as that of the insurer's renewal document sent to the broker). The broker's documentation is designed to be more consumer friendly and meet the insurance broker's own duty of care to the client regarding renewal issues.

To require insurance brokers to provide the insurer's document itself would cause a change to such arrangements and create additional unnecessary cost to brokers and ultimately the customer for no real benefit given the broker has greater obligations than insurers regarding renewal information.

- explain premium increases when a request is received from a policyholder.

As above. The issue will be to what level must an insurer provide information and to what extent. This is unclear.

- Reviewing component pricing to establish a framework for amending the Corporations Act to provide component pricing of premiums to policy-holders upon them taking out or renewing an insurance policy, as well as an assessment of the benefits and risks to making such a change.

See answers to Component pricing questions below.

- Reviewing the current standard cover regime with particular regard to the efficacy of the current disclosure requirements.

See answers to Standard cover questions below.

- Working closely with industry and consumer groups to develop and implement standardised definitions of key terms for general insurance.

See answers to definition questions below.

- Reviewing the utility of Key Facts Sheets (KFS) as a means of product disclosure, with particular regard to the:

- effectiveness of the KFS in improving understanding of home building and contents policies; and
- merit of extending the use of KFSs to other forms of general insurance.

See answers to KFS questions below.

### CONSULTATION QUESTIONS

**1 It has become apparent from discussions with industry stakeholders that there is no generally accepted definition of component pricing. What is understood by the term 'component pricing'?**

As the renewal document is a key tool in consumer engagement, we should ensure that a balanced message is contained in it so that the focus is not on a cheap policy. As the paper notes, consideration of policy cover is important as this helps to prevent underinsurance and also disputes at the time a consumer makes a claim on the policy.

The message at renewal should be:

- consider if the cover remains appropriate for your needs – with the insurer required to focus a consumer’s mind on key aspects of cover that should be reconsidered at renewal e.g excess levels, limits, affordability etc
- consider if equivalent cover is available from other insurers ie shop around. The customer should be specifically advised not to focus only on price.
- If you need help, consider obtaining personal advice from an insurance broker.

The component pricing concept provides increases the focus on price which is of concern. A comparison of the previous year’s premium against the renewal premium seems to be all that is needed regarding the issue of price to avoid an imbalance in consumer focus.

In addition, identifying what make up the “components” of a premium is a complex issue. In our view, it will be challenging to develop a clear, concise and effective definition that:

- does not create a potential uneven playing field between insurers; and
- is also understandable to consumers in a way that is not misleading.

We are happy to consider any reasonable proposals in this regard, but do not believe that this is likely to be worth including in renewal notices.

There must be an equal focus on coverage, as promoting a customer to move is of no benefit if they move for the sake of moving, without comparison, to a cheaper but worse product. This is not in the consumer’s or community’s interest.

Even if such component pricing content can be defined properly and included, we do not believe the renewal notice content should apply if a customer is receiving personal advice from an insurance broker. This is because the information asymmetry is not applicable in such a case.

Insurance brokers representing the customer will receive the insurer’s renewal information and consider this in providing personal advice on renewal and present their own renewal documentation to the customer, not the insurer’s.

Such a proposal would impact on current arrangements in this regard and create additional unnecessary cost to brokers and ultimately the customer for no real benefit.

## **2 What is the goal of disclosing a breakdown of an insurance premium on a renewal notice (component pricing)? How would consumers use this information?**

See comments above. We do not believe it is likely to be of any real assistance. The message should be shop around regarding cover and price.

If an insurer is concerned about the impact of disclosing an increase in the renewal premium, they will (as it is in their own interest) choose to provide an explanation (subject to not misleading the customer or shifting the focus to price rather than cover).

## **3 Are there any risks associated with insurers providing a detailed breakdown of a premium’s components (i.e. commercial sensitivities)?**

The biggest risk associated with component pricing will be total confusion on the part of the consumer. For example, most insurers will utilise reinsurance programs, but the nature and extent of those programs are likely to differ widely between insurers. Therefore, the premium component for reinsurance is also likely to vary widely as between insurers. How will this be interpreted by consumers? Will they be in any better position if information is provided about the nature of the reinsurance program?

There are likely to be commercial sensitivities as to the level of information provided, depending on what it is defined to include. Refer to response to Q1. above for our views on this proposal.

**4 If consumers act to mitigate some of the risks broken down in component pricing disclosure, how would insurers reduce their premium?**

This will depend on how component pricing is defined. Some components cannot be affected by the consumer. For those that might, these will usually depend upon the choices made by consumers e.g cover types selected, excess types or levels, sums insured, cover options etc, all of which they have made a decision on when applying for the product.

We do not want the result of a component pricing notice to be the impression that it is good to reduce cost at the expense of valid protection.

What they need to be reminded of is the need to reconsider the cover choices made and that they remain valid – with focus on some of the key ones [which can vary per product]. The end result may be that premium is reduced if the choice reduces premium. In some cases it may increase it.

**5 Would the disclosure of component pricing on policy renewal notices be appropriate for any other type of general insurance product other than home building and home contents insurance?**

See comments above.

**6 What components would be most useful for consumers to see listed on their renewal notices? (For example taxes, amount attributable to flood cover)**

See comments above. Focus should be on coverage choices and need to consider continuing validity of cover choices e.g excess levels, sums insured, cover type options etc having regard to their current needs.

**7 What data/breakdown are insurers able to provide if component pricing disclosure was introduced?**

This is a matter for insurers. See comments above.

**8 Where the previous year's premium is disclosed, should it be just the premium, or should it include taxes and charges? Should the amount of the insured value for the previous year also be disclosed?**

If taxes and charges are consistently applied by insurers it seems to make little difference to the insured. If not, it will be important. What separation would do is point out any increase arising from increases in such taxes and charges ie components the insurer has no control over which would be reasonable.

**9 Would insurers prefer to provide further information along with a breakdown of component pricing (for example, a written explanation in the renewal notice, the opportunity to call their contact centre for more information)? Would these items be helpful for consumers?**

Matter for insurers. One option could be to only have insurers include a note in the renewal notice telling customers how to obtain more information pricing (including component pricing) if they want more information. Any such documents should be required to make consumers aware that cover is as important as price.

**10 Would the inclusion of the sum insured and any excess along with previous year's premium on renewal notices be more appropriate than only disclosing previous year's premiums?**

Yes, but the focus should be on including information focussing a consumer's mind on what is important to consider the currency of i.e. continued appropriateness of cover choices, sums insured adequacy, excess choice and levels, options chosen etc.

**11 What are the benefits and costs in mandating a link to the ASIC's MoneySmart website to be included in new quotes and renewal notices?**

No issue with this subject to benefits outweighing costs.

**12 Are there any risks associated with disclosing the types of costs that count towards estimation of sum insured?**

The question is not entirely clear to us.

If the intent is to assist customers in selecting an appropriate sum insured (ie via calculator) we support it. The risk is that it is not comprehensive enough and leads to either over or under insurance. For a renewal notice the customer should be warned to consider the adequacy of the sum insured and provided with a link or reference to a calculator or other document with guidance.

If it is related to factors used by an insurer to come up with a sum insured to be applied to a policy by it that the insured cannot change, we question the value of such a proposal.

### **13 Would the disclosure of types of costs that count toward sum insured on insurers' sum insured calculator be appropriate?**

For a renewal notice the customer should be warned to consider the adequacy of the sum insured and provided with a link or reference to a calculator or other document with guidance.

### **14 Does standard cover achieve the purpose for which it was implemented? If not, how could it be improved?**

No.

The key issues can be summarised as follows:

- insurance is complex and comparability is difficult;
- summaries whilst useful, can mislead consumers and omit what can be crucial information;
- even if insurers get it right regarding summaries and clarity and comparability in the core documents, financial literacy and a lack of consumer engagement can thwart this.

Standard cover is only part of the solution which also requires (amongst other things):

- products to be of reasonable value to those who can buy them ie eligible target market;
- products to be designed in a clear and effective manner to the extent reasonably possible;
- insurer application processes to be designed to only allow eligible target market consumers to acquire the product and to provide useful and helpful information to customers where a choice is required – noting insurers can never provide personal advice as they cannot conduct a needs analysis on the same basis as an insurance broker could i.e. generic warnings of key issues to consider to the extent reasonably possible;
- renewal processes that remind customers of key things to consider the adequacy of before renewing i.e. coverage choices, sums insured, excesses options selected as well as price. They should be provided with access to information to assist and told of the option of seeking personal advice from an insurance broker;
- customers to be told of the option to obtain personal advice from an insurance broker if they need assistance. i.e. the information asymmetry 'quick fix'.
- improved financial literacy.

What standard cover can add to the mix is to seek to set a clear level of cover that is a balance between community expectations and what underwriters can practically deliver, that if purchased by a person who reads nothing, is acceptable from a broad community standard perspective.

This can be updated on an ongoing basis as required.

The challenge is getting the right balance and setting up a group trusted by all in this regard that is likely to achieve a fair balance. NIBA, the ICA, consumer representatives, ASIC, AFCA, and Government representatives must be minimum stakeholders for it to work.

It may be that some cover issues cannot be resolved but a considered review should be able to identify these and work out an appropriate compromise and manage the issue e.g some form of disclosure on the issue to prompt consumer consideration.

We do not believe insurers should be forced to only provide this level of cover as it would stifle competition and some eligible target markets may only need limited forms of cover and would be prejudiced if this were the case.

However, if they don't, a warning (that no consumer can miss) must be included on the front page that they are on notice and a clear explanation provided of why not and the impact.

A requirement could also be imposed that makes the insured acknowledge their decision before purchasing less than standard cover and the impact of this and advises them of the option to seek personal advice from an insurance broker.

Such insurers might also be required to notify ASIC of when this is the case. ASIC can then consider the value of the product under its product intervention powers and shut down any poor performers.

After taking into account the standard cover and the other protections listed earlier above the persons who remain exposed would appear to be those that:

- ignore the obvious standard cover warning;
- make poor choices regarding cover options and cover levels available to them etc despite the increased guidance and help given; and
- choose not to get personal advice.

This does not seem to be an unreasonable end result.

We are happy to discuss the proposals further.

**15 Are the current terms and conditions, including caps, limits, and exclusions included under standard cover seen to be adequate?**

No. These need to be reviewed and updated by key stakeholders. See comments in 14. above.

**16 What would be the likely consequences if the standard cover regime was extended to cover a wider number of terms and conditions? What sort of areas might be usefully added to standard cover?**

This would need to be considered carefully by key stakeholders in the context of each product. See comments in 14. above.

**17 Should there be a 'default cover' that insurers are required to provide without exception?**

No, see comments in 14. above.

**18 Should all insurers be required to provide products that provide standard cover as prescribed in the Insurance Contracts Regulations?**

No, see comments in 14. above.

**19 Is the requirement to 'clearly inform' a consumer that an insurance contract provides less than standard cover as it is commonly understood, an appropriate threshold for insurers to satisfy before they are exempted from providing standard cover?**

No, see comments in 14 above.



**20 Where insurers deviate from standard cover, should they be required to provide express disclaimers identifying where the policy deviates from standard cover?**

Yes, see comments in 14 above.

**21 What disclosure requirements could the Government look into in order to reflect the intended purpose of standard cover requirement?**

A clear warning that no consumer can miss and a requirement that the insured acknowledge this and the risk before purchasing less than standard cover.

**22 Has the standard definition of flood reduced the number of complaints/disputes with insurers about coverage?**

Flood is a complex issue and whilst the definition has assisted in some respects, issues still arise.

We are happy to engage in discussion on identified issues in this regard and consider any variations proposed.

**23 Should the Government mandate standardised definitions for a menu of key terms?**

This could be done as part of the standard cover process where appropriate to aid comparability. Insurers that adopt different definitions would need to provide a warning and an explanation of why it is less than standard cover and the impact.

**24 If key terms were to be standardised, what definitions should the Government prioritise? What terms tend to be subject to dispute due to misunderstandings of meaning?**

At a minimum consideration should be given to those identified by AFCA as giving rise to significant proportion of disputes and where a definitional change is justified this should be considered.

We are happy to engage in discussion in this regard and consider definitions as proposed.

**25 What impact would standardising some definitions have on underwriting?**

This is a matter to consider on a case by case basis.

Insurers should be required to identify why it is or is not appropriate to have a standardised definition. Ultimately, if cover is not available or only available at prohibitive cost, a standard definition providing that cover will be useless.

Some should be standardised and compulsory.

Others might not be appropriate to be compulsory, subject to a warning if different and an explanation of any adverse impact.

Others may not be appropriate to standardised for good reason.

There should be no restriction on a definition that is not standard but is of greater benefit to a consumer than the standardised version.

In a model where insurers that don't provide the minimum standard cover or standardised definition are required to make this clear and explain the impact, most insurers would be likely to adopt a standardised definition where possible.

We are happy to engage in discussion in this regard and consider definitions as proposed.

**26 Should there be standard definitions for exclusions, for example, wear and tear?**

Those identified by AFCA as giving rise to significant proportion of disputes where a definitional change is justified.

We are happy to engage in discussion in this regard and consider definitions as proposed.

**27 Should the KFS be extended beyond two pages to convey more information, similar to the short-form PDS?**

NIBA has raised concerns on the oversimplification of what is covered by the relevant policies in KFSs and the potential to mislead consumers into policies that do not meet their needs. There are examples in particular in relation to home and home contents policies where the KFS could actually be misleading to the relatively uninformed consumer.

In our view, if the Standard cover regime as proposed by us above is introduced, such a document with summaries of cover would be of little added value.

What might be of more value is mandated guidance content, after appropriate consultation with key stakeholders (at a minimum, NIBA, ICA, AFCA, consumer representatives, ASIC and Government) on what insureds should generally consider in relation to making a decision in relation to Home Buildings and Contents policies. In effect an education tool.

Similar tools could be developed as part of the Standard cover review process.

**28 The form of the KFS is currently prescribed in the law, should this be removed to allow industry to take a more innovative approach?**

We do not support the KFS in its current form and see little value in it. See comment in Q 27. above.

**29 Are there any legal issues industry would like to raise regarding the extension or modification of the KFS?**

See comment in Q 27. above.

**30 Are there items that would be more suitable for inclusion for consumers in a KFS?**

See comment in Q 27. above.

**31 In the context of home building and home contents insurance, what are considered to be the key policy elements that consumers need to know about for them to make an informed decision when comparing across policies?**

Some examples are:

- Type of cover provided e.g Defined events vs Accidental damage, compulsory or optional;
- Basis of settlement for the covers;
- Limits including sub limits;
- Type and level of Excesses;
- Scope of exclusions;
- Impact of conditions and other relevant terms regarding price, payment, refunds, cancellation, renewal etc

No KFS is required where an insurance broker provides personal advice to its client.

**32 Would there be merit in extending the KFS requirement to other forms of general insurance? What value does it add for the consumers?**

Not in its current form. If it were framed as a Guidance tool as proposed in Q 27 above, this may be appropriate.

In the stakeholder consultation on standard terms we expect reasonable consensus on such Guidance could be achieved at the same time.

**33 How can the low awareness of KFS's be addressed and the difficulty of consumers in comparing different policies using KFSs overcome?**

See comment in Q 27 and standard cover proposal which in our view manages the problem to a reasonable level. We repeat that personal advice from brokers is a quick fix to the problems but acknowledge not all consumers will access such advice. They should however be told of it as an option.

**34 Should the KFS be replaced with a new approach? If so, what approach should be taken?**

See comment in Q 27. above.

**35 Are there more effective or innovative ways to communicate information on policies to consumers?**

Yes. Subject to minimum standards, this should be left to insurers to decide on to allow innovation.

**36 Is the law currently preventing more effective methods of disclosure? If so, how?**

There are some issues with electronic communication of information and deemed receipt rules. We understand that the Corporations Act and Insurance Contracts Act operate differently in this regard which causes complications.

**37 How could the law facilitate new methods of disclosing the content currently required in the PDS, while still ensuring adequate consumer protections?**

The main issue is making sure consumers are educated at the time of making a decision on any matter.

Providing disclosure documentation may not assist in this regard.

What is more important is:

- ensuring that insurer application processes are designed to only allow eligible target market consumers to acquire the product and to provide useful and helpful information to customers where a choice is required – noting insurers can never provide personal advice as they cannot conduct a needs analysis on the same basis as an insurance broker could i.e. generic warnings of key issues to consider to the extent reasonably possible.
- Advising consumers they can seek personal advice if they need help in making a decision.

## **CONCLUSION**

NIBA would be pleased to have the opportunity to discuss these matters in further detail.