



29 March 2019

Manager, Insurance and Financial Services Unit
The Treasury
Langton Crescent
Parkes ACT 2600
By email: claimshandling@treasury.gov.au

To whom it may concern,

Consultation Paper - Insurance Claims Handling

illion (formerly Dun & Bradstreet Australia and New Zealand) welcomes the opportunity to provide this submission to Treasury via its consultation into insurance claims handling, in response to recommendations made by the Banking, Superannuation and Financial Services Royal Commission. As the leading data and analytics business in Australia, illion maintains extensive credit and commercial databases to assist clients achieve commercial outcomes and aid consumers in accessing personal credit information. As part of our work, we also host and manage a centralised, secure and closed information sharing platform for the general insurance industry through Insurance Reference Services Limited (IRS Limited), a member-based organisation associated with the Insurance Council of Australia. The IRS data registry enables insurers to share claims data with other insurers, as permitted in their privacy policy and in compliance with the Australian Privacy Principles.

illion believes there is significant further potential to utilise the data and analytics capabilities of the IRS data registry to address public policy concerns regarding general insurance claims management, as outlined in the *Final Report* of the Royal Commission. For reasons outlined below, we consider that the use by insurers of IRS information at the point of underwriting for any general insurance policy should form part of the General Insurance Code of Practice.

This submission will begin by providing further background into illion's work and the role of IRS within the insurance claims handling process. It will then go on to consider the wider public policy issues at hand and outline how data insights can assist the industry to improve claims management and support enhanced oversight within the industry, in order to deliver positive consumer outcomes.

If there are any questions or concerns arising from this submission, please feel free to contact me at any time at steven.brown@illion.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Steve Brown".

Steve Brown
Director - Bureau Engagement

1. About illion and IRS

illion is a data and analytics business, operating in Australia since 1887. Using extensive credit and commercial databases, we assist banks, other financial services providers and other businesses to make informed credit and risk management decisions, and help consumers access their personal credit information. Our data assets, combined with our end-to-end product portfolio and proprietary analytics capabilities, enable us to deliver trusted insights to our customers and facilitate confident and accurate decision making. illion is highly invested in the Australian market with over 130 years of data history and experience. This experience, combined with in-depth research, advanced analytics capabilities, and a comprehensive view of the data landscape, has made illion the market leader in Australia.

Since October 2016, illion has hosted and managed IRS on behalf of Insurance Reference Services (IRS) Limited. IRS Limited is a member-based organisation which since 1984 has been assisting Australian general insurance company members better understand policy holder claims history information. The IRS data registry supports risk underwriting, claims management, claims investigation, loss assessment and fraud detection. IRS Limited is comprised of 14 member companies operating in the domestic general insurance market. Its board of directors is made up of member delegates and representatives of the Insurance Council of Australia (ICA), which additionally provides administration services.

The IRS data registry is extensive, including 10 years of motor and home claims information relating to approximately 16 million individuals and 1 million businesses in Australia. There is currently a focus to include additional claim types within IRS e.g. travel claims. It holds 28 million de-duplicated claims in a secure environment and each month receives more than 1.2 million claims updates from IRS members. There is an existing high level of participation in IRS data sharing among the industry, particularly in relation to motor and household insurance, covering approximately 90 per cent of contracts.

IRS was originally designed to validate underwriting risk, and to assist within the claim management process to detect and prevent fraud. By sharing information around incidents of insurance claims, the industry is able to develop a source of information to better understand the risk posed by individuals seeking a general insurance policy

IRS has the potential to provide advanced insight into claims information prior to taking on further risk by making enquiries which assess the risk of an individual, business or address. This data can provide a participating member with greater understanding of the potential risk associated with prospective customers. Given the extensive size of the IRS database and strong risk assessment offering, illion believes these data and analytics capabilities delivered through IRS can address a number of the public policy concerns raised in relation to general insurance claims management. As discussed below, these issues have come to the forefront of policy debate following release of the Royal Commission's *Final Report* in February 2019.

2. Public policy issues

The Royal Commission has endorsed improvements to existing legal and regulatory frameworks to address shortcomings in the financial services industry, rather than introducing new layers of complexity. In relation to the insurance sector, Commissioner Kenneth Hayne made a total of 15 recommendations including that the "handling and settlement of insurance claims, or potential

insurance claims, should no longer be excluded from the definition of ‘financial service’ under the *Corporations Act 2001* (Cth) (*Corporations Act*).¹ This recommendation was made in relation to both life and general insurance, however, this submission is concerned solely with claims handling in general insurance.

At present, the handling and settlement of insurance claims, or potential claims, is carved out from the definition of ‘financial service’ by operation of regulation 7.1.33 of the *Corporations Regulations 2001* (Cth). The general obligations on financial services licensees set out in section 912A of the *Corporations Act* therefore do not extend to insurance claims handling processes. This includes the obligation to “do all things necessary to ensure that the financial services covered by the licence are provided efficiently, honestly and fairly”.²

In practice, the proposed change would therefore provide additional impetus for insurance companies to conduct their operations in an efficient, honest and fair manner when settling negotiations and claim approvals. As stated in the *Final Report*:

There can be no basis in principle or in practice to say that obliging an insurer to handle claims efficiently, honestly and fairly is to impose on the individual insurer, or the industry more generally, a burden it should not bear. If it were to be said that it would place an extra burden of cost on one or more insurers or on the industry generally, the argument would itself be the most powerful demonstration of the need to impose the obligation. The argument can be made only if claims handling is not now conducted efficiently, honestly and fairly. And if that is the case, it should no longer be tolerated by the industry or by the law.³

Such a change would also provide the Australian Securities and Investments Commission (ASIC) with greater powers to intervene in the handling of insurance claims and penalise those who breach these new behavioural standards.

A number of case studies examined in the sixth round of hearings at the Royal Commission drew attention to the poor handling of home insurance claims following natural disasters and severe weather events. This included unwarranted delays in processing claims, notable transparency and efficiency concerns, and evidence of poor conduct across the broader claims management supply chain. Such issues were shown to have produced severe consumer detriment.

We note that insurance companies are already subject to behavioural obligations under existing legal instruments. For example, the *Insurance Contracts Act 1984* (Cth) provides that insurers involved in the management, administration and processing of a claim are subject to a duty of “utmost good faith.”⁴ Additionally, the voluntary General Insurance Code of Practice requires industry members to “be open, fair and honest” with customers.⁵

Should the Royal Commission’s recommendation to include insurance claims handling in the definition of a ‘financial service’ be implemented, additional obligations will be imposed on insurers relating to efficient, honest and fair conduct in claims management. The following section of this submission will outline Illion’s views as to how IRS can be utilised to support such conduct and benefit the consumer experience.

¹ Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report* Vol 1 (1 February 2019) recommendation 4.8.

² *Corporations Act 2001* (Cth) s 912A(1)(a).

³ Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report* Vol 1 (1 February 2019) p 309.

⁴ *Insurance Contracts Act 1984* (Cth) s 13.

⁵ General Insurance Code of Practice 2014 s 1.3 p 2.

3. Better use of data to improve claims management

million is of the view that greater use of data and analytics can be used to address claims handling issues identified by the Royal Commission. These capabilities are offered through the IRS data registry, providing oversight into 28 million claim records relating to more than 16 million individuals and 1 million companies in Australia.

There are three distinct ways in which the IRS data registry and its associated capabilities can be used to improve claims handling and the associated consumer experience.

A. Identification of previous claims history at time of original underwriting

million estimates that around 15-20 per cent of new insurance policies involve undisclosed previous claims that may give rise to future claims under the new policy not being accepted, or repudiated due to non-disclosure. There is a clear opportunity and need to improve this metric.

Creating an obligation on general insurers to access the IRS and verify claims data at the point of original underwriting will reduce the propensity to repudiate/dispute claims under the new policy.

IRS has traditionally been accessed by general insurers at the claims stage. However, a number of industry participants have shifted their processes in recent years to incorporate IRS data at the point of original underwriting in order to verify previous claim data. In this way, industry-wide data sharing is playing a vital role in obtaining an accurate view of exposure, and provides an integrated view of claims information prior to an insurer taking on additional risk.

The use of IRS data at the point of underwriting can deliver significant benefits for both consumers and insurers.

The benefits to consumers include:

- Lower premium pricing due to more accurate pricing of risk underwriting.
- Reduced risk of repudiation due to non-disclosure of previous claims at the time of claiming.
- Increased claims rates and reduced delays in the claims handling process.
- Increased efficiency in the claims handling process, leading to faster claims resolution.

The benefits to insurers include:

- Access to upfront risk assessment before a policy is underwritten, accessing ten years of claims information.
- Access to tools to assist in setting appropriate premiums based on past policy behaviour.
- Assistance in streamlining the underwriting process.
- Delivery of consistent and objective risk management services, increasing compliance.
- Improved reputation as the insurer is not selling a service it may later repudiate.

This offering is immediately available to industry participants using the IRS database in its current form.

B. Claims tracking

In addition to the above, IRS could be used to improve current processes through a new system to track claims handling and provide alerts when claims are not finalised within a defined period.

Under existing processes, IRS participants provide data on new claims and updates to claims on a daily and weekly basis.

Illion proposes to develop a new system that records the timeframe between when a claim is registered and when it is finalised, thereby tracking the overall life of a claim, and provide alerts to both the insurer and IRS Limited to better monitor developments. This data could be used by industry to gain an overall picture of claims tracking and assist in measuring progress. Improved oversight of claims handling standards will increase efficiency in the claims handling process, lead to faster claims resolution for consumers, and thereby address an area of concern raised by the Royal Commission.

This offering would require an enhancement to the existing IRS database.

C. Creation of a service provider database

Illion believes that the establishment of a centralised 'service provider' database attached to IRS, to build on the existing insights offered through IRS data registry information, offers substantial benefit to both consumers and insurers. Service providers involved in the claims handling process include those such as building contractors, panel beaters, tow truck drivers, etc.

At present, each insurer holds a list of preferred service providers on their panel, yet no industry database exists to collate information on the performance and workmanship of these service providers across the general insurance sector. This represents a gap in meaningful industry data, and presents an opportunity to improve transparency in the system.

We envision that a new service provider database forming part of the IRS registry will hold up-to-date information on the rating and performance of service providers involved in the claims handling supply chain. This full, end-to-end supplier management solution could also include value-add solutions including information on the financial viability of a service provider, an overview of its ownership structure, information on the quality of a claim outcome and timeliness of service provision, comparison information on 'look-a-like' businesses, and risk monitoring services.

There are clear consumer benefits to be derived from enhanced transparency over service provider performance within the claims handling supply chain. Greater insight delivered through this proposed database would also assist insurers in meeting an obligation to handle claims efficiently, honestly and fairly, addressing a concern raised during the Royal Commission.

This offering would also require an enhancement to the existing IRS database.

Recommendation

Illion believes there is significant further potential to utilise the data and analytics capabilities delivered through IRS to address a number of the public policy concerns regarding general insurance claims handling. It is therefore Illion's recommendation that participation by insurers in accessing the IRS data registry to verify claims data at the point of original underwriting & renewal and the proposed enhancements to the IRS registry for claims tracking and the creation of a service provider database should form part of the General Insurance Code of Practice.