One Company Many Brands
SUNCORP GROUP

Suncorp Group Limited
ABN: 66 145 290 124

36 Wickham Terrace
Brisbane QLD 4000

GPO Box 3999 Sydney NSW 2001

26 August 2014

Mr David Murray AO
Financial System Inquiry
GPO Box 89
SYDNEY NSW 2001
By email: fsi@fsi.gov.au

Dear Mr Murray

Financial System Inquiry

This submission is lodged on behalf of Suncorp's General Insurance businesses. Operating some of the country's most trusted insurance brands, Suncorp is one the leading general insurance groups in Australia. We offer a range of personal and commercial insurance products protecting the financial wellbeing 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 Interim Report of the Financial System Inquiry, particularly the view of the Panel that the general insurance industry is distinct from banking, superannuation and other wealth management industries. It is therefore appropriate that the general insurance industry continues to be governed by distinct policy and regulatory settings. The Interim Report also observed that Australia's general insurance industry is stable and enjoys healthy levels of competition. In recent years, a number of new entrants have joined the market, including major players from other sectors such as banks and retailers. It is certainly Suncorp's experience that the market is extremely competitive and we need to work hard to deliver products and services that continue to attract and retain customers.

An efficient and competitive market that serves its customers well is preferable to a government operated monopoly. Suncorp therefore urges the Panel to consider the continued government underwriting of statutory insurance schemes and the potential efficiency and productivity gains in opening up this $15 billion market to private sector competition.

We also invite the Panel to review proposals regarding commercial price comparison websites (or aggregators) and disclosure regimes in terms of customer outcomes. Suncorp does not believe price comparison websites produce beneficial outcomes for consumers in general insurance lines. They place an undue emphasis on price over product coverage and value and we fear this could be detrimental to consumers and could exacerbate issues such as underinsurance. Forcing commercial relationships between pre-existing businesses or government intervention in a competitive and well-functioning market would also produce questionable policy outcomes. In relation to disclosure, we encourage the Panel to review opportunities to make the regime more flexible and responsive to consumers and technological developments to allow insurers to innovate and communicate with our customers in the way that best suits their needs and lifestyles.

Should you require further information or have any questions please do not hesitate to contact Duncan Bone, Senior Manager - Public Policy on 02 8121 0277 or at duncan.bone@suncorp.com.au.

Yours sincerely

Mark Milliner
CEO Personal Insurance

Anthony Day
CEO Commercial Insurance

Financial System Inquiry: Interim Report 2014

Suncorp General Insurance Submission

One Company
Many Brands

SUNCORP GROUP

Contents

Overview of Suncorp

Suncorp Group is one of the largest general insurance groups in Australia offering a range of personal and commercial insurance products protecting the financial wellbeing of millions of Australians. As a Group, Suncorp has nearly 15,000 employees and more than nine million customers across the country. The General Insurance business alone paid out $5.2 billion in insurance claims in 2013-14, averaging more than $14 million each day.

Suncorp offers a range of personal insurance products including car, home and contents, travel, boat, motorcycle and caravan insurance. The key to Suncorp's success in personal insurance is its portfolio of well-known brands. These include Suncorp Insurance, Apia, AAMI, GIO, Vero, Shannons, Just Car Insurance, Insure My Ride, Bingle, Terri Scheer, CIL Insurance and Resilium. These brands have built reputations for insurance innovation, outstanding customer service and trustworthy products.

Suncorp also offers commercial insurance products that serve the needs of a wide range of business customers, from small business operators to global companies. The Commercial Insurance portfolio of brands includes GIO, AAMI, Suncorp Insurance, Vero and Resilium. Suncorp is also Australia's largest personal injury insurer offering workers compensation and CTP insurance, which serve the needs of governments, employers and the community.

Introduction

Suncorp welcomes the Interim Report of the Financial System Inquiry. In particular, we support the view of the Panel that the general insurance industry is distinct from banking, superannuation and other wealth management industries. It is therefore appropriate that the general insurance industry continues to be governed by distinct policy and regulatory settings, such as the *Insurance Contracts Act 1984* (Cth).

The Interim Report also observed that Australia's general insurance industry is stable and enjoys healthy levels of competition. In recent years, a number of new entrants have joined the market, including major players from other sectors such as banks and retailers. It is certainly Suncorp's experience that the market is extremely competitive and we need to work hard to deliver products and services that continue to attract and retain customers.

In an efficient and competitive market that serves its customers well, there is no need for government intervention that distorts markets. Suncorp urges the Panel to consider the submissions presented to them and ensure policy recommendations regarding the insurance sector are well-researched, based on systemic evidence and support the ongoing operation of the market.

The Interim Report does raise a number of interesting issues regarding the insurance market that are interrelated. This submission will cover the following issues:

1. The continued involvement of government in statutory insurance schemes.
2. The consumer outcomes delivered by aggregators/price comparison websites.
3. Promoting innovation through flexible disclosure regimes.
4. The drivers behind underinsurance.

Statutory schemes

Suncorp supports the opening up of personal injury insurance schemes to increased competition and believes privatisation will deliver better outcomes for consumers. Combined, workers compensation and compulsory third party insurance (CTP) are worth approximately $15 billion[1] in gross written premiums nationally each year. Currently, over $10 billion is underwritten by government - risk that the private sector has both the capacity and expertise to manage. There is considerable potential for the private sector to increase efficiency and productivity in this part of the financial sector to provide better outcomes for policy holders and most importantly, people who are injured.

Role of government in statutory market

Governments continue to play the role of underwriter and claims manager in the insurance market in the fields of workers compensation and CTP. Up until the 1990s every State and territory ran a government insurance office that competed with private sector insurers. Since then, most jurisdictions undertook to privatise their insurance businesses and allow greater competition in their local markets for home, motor and commercial insurance. Despite this significant shift in public sector involvement in the insurance sector over 20 years ago, in every jurisdiction apart from the ACT, workers compensation schemes and/or CTP schemes continue to be run by government bodies.

It has long been acknowledged that privatising personal injury insurance schemes presents a significant opportunity to improve productivity across the country. This is an area where, as the Productivity Commission has found, "the reform process to date has failed to take advantage of opportunities to deliver better outcomes for those requiring these insurance products and for the community more generally"[2]. By introducing additional competition into these schemes there is the potential to bolster transparency, innovation, efficiency and service provision in this market.

Personal injury insurance schemes

Suncorp supports public underwriting of catastrophic personal injury insurance and has been a keen advocate of the National Disability Insurance Scheme (NDIS) and National Injury Insurance Scheme (NIIS). There is a clear social benefit in governments retaining this function. Public underwriting of catastrophic injuries is necessary as the cost of capital the prudential regulator requires would be prohibitive based on the 'long-tail' and lifelong nature of these claims and the volatility of claims costs over the lifetime of the injured person. The public sector is well equipped to

[1] In addition, around $2 billion of self-insurance costs are accrued nationally each year.
[2] Productivity Commission, *Review of National Competition Policy Reforms*, 2005, p269.

provide services through a lifetime care scheme that deliver appropriate care and support on a needs basis, which is preferable to providing catastrophically injured people with lump sum financial compensation.

By contrast, the advantages of private sector underwriting and claims management in personal injury insurance schemes such as workers compensation and CTP have long been established through past reviews.

Previous reviews of statutory schemes

In 2005, the Productivity Commission reviewed the progress of the National Competition Policy reforms, including the role of state-owned monopoly insurers.

> *"As part of the NCP process, all States and Territories have conducted separate legislation reviews of monopoly insurers and premium controls. However, moves to implement the recommendations arising from these reviews have been slow, with no action occurring in some cases. For instance, despite all of the initial reviews into the monopoly provision of CTP insurance recommending that more competition be introduced — and three out of the five workers' compensation reviews reaching the same conclusion — no jurisdiction has, as yet, amended legislation to allow this to happen. In some instances, governments have commissioned further reviews that have overturned the initial findings and recommended retaining monopoly insurers."*[3]

In relation to workers compensation specifically, in 2004 the Productivity Commission undertook a comprehensive review of schemes across the country. Amongst its findings, the Productivity Commission determined that the private sector is better placed to run such schemes:

> *"on balance, private provision is preferred on grounds that: private capital is directly at risk; competition in the marketplace is likely to generate incentives for efficiency and innovation; and there is greater transparency of any governmental influence over premiums. Further, the risk of private insurer failure can be reduced by prudential regulation."*[4]

More recently, the advantages of shifting workers compensation scheme functions into the private sector were recognised by the 2014 National Commission of Audit. In relation to the Commonwealth workers compensation scheme, it recommended that:

---

[3] Productivity Commission, *Review of National Competition Policy Reforms*, 2005, p268.
[4] Productivity Commission, *National Workers' Compensation and Occupational Health and Safety Frameworks,* 2004, p323.

"Comcare's claims management function be outsourced and private sector underwriting of Comcare's workers' compensation insurance scheme pursued."[5]

Benefits of privatisation in personal injury insurance

Private insurers have considerable experience in injury insurance markets and competitive tension will drive ongoing improvements in pricing, claims management, customer service and cost efficiency. Private insurers have a strong motivation to innovate and continuously improve in order to retain customers and grow market share. These improvements have positive outcomes for the conduct of the scheme and its participants and would provide a significant public benefit.

Many insurers also operate across several jurisdictions and provide various injury insurance products. This cross-market experience allows insurers to quickly identify new developments and extend innovations into other markets.

Privatisation also drives market outcomes through:

- separation of interests between the regulator, underwriter, the Government and the regulated activity; and
- more efficient use of capital by private organisations striving to compete for capital, driving greater innovation, service levels, efficiency, and responsiveness to stakeholder needs.

The economic benefits to government in privatising personal injury insurance schemes include:

- keeping systemic and investment risk away from government and placed onto private insurers and claims agents;
- keeping scheme liabilities off the public sector balance sheet and on the private sector balance sheet, protecting public sector net asset position and credit ratings from unforseen adverse market movements; and
- improving government capital management strategies by unlocking capital to reallocate to economic growth initiatives and other public policy needs.

Insurers in privately underwritten schemes are prudentially supervised by the Australian Prudential Regulation Authority (APRA) to ensure sufficient capital adequacy to meet outstanding liabilities. The benefit for government is the protection of balance sheets and credit ratings. This leaves government in a position to focus on the core role of scheme regulation, without the need to underwrite schemes and manage claims.

[5] National Commission of Audit, *The Report of the National Commission of Audit – Phase Two*, March 2014, pxxvi.

Despite the clear benefits private sector insurers can provide, reform of personal injury insurance has long been overlooked. Suncorp encourages the Panel to consider the reform potential for this sector of the economy and the consumer benefits that could be attained through privatisation. Further information can be found in Suncorp's submission to the Competition Policy Review at http://competitionpolicyreview.gov.au/files/2014/06/Suncorp.pdf.

Aggregators/price comparison websites

The Interim Report discusses possible regulatory intervention in the insurance market to facilitate the role of aggregators, otherwise known as price comparison websites. Aggregator sites are product related, not system related. Suncorp does not support government intervention in the operation of a well-functioning and competitive market, including in relation to product design and marketing. We believe the question for government is not about regulating insurers, but instead looking at how to regulate aggregator websites which are acting as de facto financial advisors and which evidence suggests are not delivering price competition, but can in fact operate to the detriment of consumers.

Consumer awareness

Consumer awareness is vital to a well-functioning market place. Suncorp is committed to providing our customers with timely and easy to understand information about our products, and invests significant resources into this. Suncorp also supports industry initiatives to improve financial literacy, such as the Insurance Council of Australia's recently launched "Understanding Insurance" website (http://understandinsurance.com.au/) and "Find an Insurer" (http://www.findaninsurer.com.au/).

When choosing a personal insurance product, it is imperative that consumers shop around to get the best deal on the product most suited to their personal needs and level of comfort with risk. As well as the industry itself, independent third parties play an important role in assisting consumers to make sound decisions, including enabling consumers to compare products.

Suncorp regularly works with consumer-focused organisations and financial media, who provide detailed reviews of our products and comparisons against competitors based on features and price to derive an appropriate view on the value of the product. Suncorp also has a long history of working with insurance brokers, experts who provide a range of products and advice to consumers, focusing on one-to-one interactions that aim to tailor products to needs. Suncorp values its direct relationship with consumers, and does not currently engage with website aggregators due to concerns outlined below.

Personal insurance lines

Aggregators have been a part of the Australian insurance landscape for a number of years. As the Interim Report notes, their degree of penetration across different insurance markets and products has been varied. This is due to the nature of the products they are seeking to compare and consumer demand for this direct service, which appears to currently be of limited value to the market in Australia.

The personal insurance market has a diversity of products with different coverage options targeted towards different consumers who may want different levels of cover and risk. As noted above, these products are already comparable through independent third parties, such as insurance brokers and financial media, including a full analysis of features and indicative prices that showcase the value of the product to the consumer. Suncorp and the majority of our competitors' prices are readily available in minutes through insurers' own websites or call centres.

Suncorp is concerned about any proposal to mandate a commercial relationship between insurance companies and aggregators. All current commercial website insurance aggregators are middlemen charging commissions and fees for their services which are ultimately passed on to consumers. Insurance companies should not be placed in a position where they are compelled to pay for services that deliver questionable consumer outcomes, as detailed below. Further, it appears consumers have already made a clear choice in the personal insurance market, having moved away from the aggregated broker model to a direct purchase model, cutting out the middleman and saving on their insurance.

Price competition

The Interim Report notes the potential for aggregators to increase price competition in the personal insurance market. Suncorp is concerned that their increased use would not deliver this outcome and certainly this is not the experience in comparable overseas markets. In fact, in the United Kingdom (UK) motor insurance market, where aggregators dominate, it is evident that these tools have had not had a positive impact on price competition.

Unlike in Australia, aggregators have been a key feature of the UK motor insurance market for more than 15 years. However, evidence shows that motor premiums in Australia and the UK both followed a similar trajectory over time. According to the longest running UK motor premium index[6], from 2000 to 2006 motor premiums remained relatively flat. By comparison in Australia over a similar length of time, 2008 to 2014, motor insurance premiums have followed a similar flat trajectory without the significant penetration of aggregators into the market[7].

Perhaps more importantly, in the UK from 2007 to 2011, motor premiums almost doubled. They fell in 2012 but are still nowhere near the 2006 levels. A sharp escalation in accident injury claims is often credited with this increase in premiums,

---

[6] AA British Insurance, *AA British Insurance Premium Index 2014 Quarter 1,* United Kingdom, April 2014.
[7] Suncorp internal data on average motor premium levels across the industry.

and legislation to reduce them has been introduced. A similar situation can be observed in North Queensland, where claims experience from recent disasters has uncovered higher risk that has driven premium increases in the home market.

Poor consumer outcomes

Not only do aggregators fail to assist personal insurance customers through lowering prices, they can also have the perverse effect of reducing consumer comprehension of the product they have purchased, leading to further underinsurance or even non-coverage. A number of recent reports from the UK highlight the tendency for consumers to make uninformed decisions using these engines.

One of Suncorp's key concerns with aggregators is their inability to provide customers with the information they need to make appropriate decisions about general insurance products. This view is supported by a recent review conducted by the UK Financial Conduct Authority into the operation of price comparison websites (PCWs) in the general insurance sector. In their report, the Authority determined that:

> *"PCWs did not present sufficient product information in a clear and consistent way, to ensure consumers were given appropriate information to allow them to make informed decisions…*
>
> *While PCWs provide choice in the number of providers and products available, we found that they had not always taken reasonable steps to ensure consumers had the appropriate information to allow them to make informed choices. This finding applies to both the core policy and add-on products. This increases the risk that consumers may not always achieve fair outcomes, as they may buy products without understanding key features such as level of cover, excess levels, main exclusions and limitations."*[8]

Another concern is that consumers focus on price rather than value and features when using aggregators. Again, consumer research from the UK supports this view:

> *"Our consumer research also indicated that consumers were price focused when using a PCW and some mistakenly believed that the extent and quality of cover for the core policy were largely the same regardless of price (sometimes believing that only add-ons and/or policy excess amounts signified differences in the level of cover). The overall focus on price was corroborated by PCWs own data on consumers using their services.*
>
> *We also found that PCWs present the price of the core product more prominently than other information provided. This approach, combined with*

[8] Financial Conduct Authority, *Price comparison websites in the general insurance sector,* TR14/11, UK, July 2014, p4.

the shortcomings in information provision, leads to a large number of consumers buying the cheapest product (even where this may not be the most appropriate). The focus on price exacerbates the practice by providers of stripping out features from the core product to be price competitive and to appear at the top of the quote rankings."[9]

There is also the concern that consumers will not discover their gaps in coverage until they are in a position to make a claim. The UK Financial Conduct Authority found a year earlier that:

"A key concern is the expectation gap – where people believe they are getting a good deal because they are saving money initially, only to find they are not covered as comprehensively as they thought when they make a claim."[10]

Suncorp values the direct relationship it maintains with its personal insurance customers from discovery and sale through to the claim. This provides us with the opportunity to manage expectations from start to finish, provide a better service and aim to reduce the instances of non-coverage or underinsurance that could impact our reputation for protecting what matters to our customers. When working with insurance brokers, their experience, advice and advocacy adds significant value. By contrast, Suncorp does not believe there is sufficient consumer understanding of the role of aggregators and their ability to provide personal advice.

"Our customer research also indicated that some consumers believed that the PCW had provided them with advice or guidance. They believed that the PCW had provided them with quotes on the best policy for their needs, had assessed the suitability of the policy for them or gave assurance regarding the security of the provider."[11]

Further information on Suncorp's position on aggregators can be found in our submission in response to the Federal Treasury's paper *Addressing the high cost of home and strata title insurance in North Queensland* which can be provided on request.

[9] Financial Conduct Authority, *Price comparison websites in the general insurance sector,* TR14/11, UK, July 2014, p8.
[10] Financial Conduct Authority, *The FCA launches review into price comparison websites,* Media release, United Kingdom, 24 November 2013.
[11] Financial Conduct Authority, *Price comparison websites in the general insurance sector,* TR14/11, UK, July 2014, p5.

Disclosure

Suncorp is committed to providing our customers with meaningful and easy to understand information that will assist them to make informed choices about our insurance products. The more educated a consumer is about their own risks, the better they are able to purchase insurance that covers these risks.

Product disclosure is an important aspect of the information consumers need to purchase insurance products. However, we do not believe the existing regime has proved agile enough to allow insurers to interact with customers in the most effective ways. The current review provides an opportunity to review the regulatory and policy settings and look at how governments could better leverage these to better serve the community in the future.

An example of this has been the electronic delivery of product disclosure statements. In 2004 it was first proposed that insurers should be able to communicate through email, long after the technology was well-entrenched and broadly accessible to the majority of our customers. However, it was not until 2013 that such legislation was actually passed meaning that for almost a decade regulations prevented communication through what was clearly a preferred channel for many consumers.

The challenge presented by technology and behavioural economics is certainly not unique to the insurance industry, nor the Australian market. We note that proposals currently before the Inquiry look to extend the current regime and create more layers of disclosure. Our concern is that these suggested further extensions will not address the intended underlying issues and could complicate the system, further reducing our ability to innovate and respond to consumer trends.

Additionally, it is important that disclosure regimes are able to reflect the needs of consumers in relation to different classes of products. For instance, a general insurance product is very different to a superannuation fund or a mortgage. We strongly believe the general insurance industry should continue to be governed by distinct policy and regulatory settings in relation to disclosure, such as the *Insurance Contracts Act 1984* (Cth).

Going forward, we would like to see industry and government can work together to ensure our industry has the flexibility to adapt disclosure to new and emerging technology and that it is more aligned with consumer behaviour. More broadly though, it is Suncorp's responsibility to constantly look for better ways to communicate directly with consumers about our products to keep our customers better informed on an ongoing basis.

Advice models

Suncorp notes the Interim Report considers the option of relabelling general advice as sales or product information. We would support a review of current advice models, rather than just terminology, to ensure insurance customers are equipped with the appropriate advice that will allow them to make informed decisions. The current system is restrictive and in Suncorp's experience limits the ability of insurers to provide consumers with basic product advice regarding value and coverage that would enable consumers to make appropriate decisions about insurance for their individual circumstances.

Underinsurance

The Interim Report notes that several submissions to the Inquiry highlight the issue of underinsurance. The Panel correctly observes that "[u]nderinsurance may occur for a number of reasons, including: personal choice, behavioural biases, affordability, and lack of adequate information or advice on the level of insurance needed."

Underinsurance is a catch-all term to describe several different outcomes consumers get from insurance products. These may be planned or unplanned. As a result, this issue is difficult to define and quantify.

Our previous submission to the Inquiry discussed the apportionment of risk, of which conscious underinsurance by consumers is a way of managing their risk by apportioning it to government through recovery payments. This occurs where consumers decide to accept a certain level of risk themselves and either not take out insurance or only take out a limited level of insurance.

Unconscious underinsurance can be driven by a lack of knowledge of the replacement value of their assets and the likelihood of risk. It can also arise as a result of demand surge and changes to local building codes. Suncorp undertakes a number of measures to correct this including continually updating our pricing engine to ensure our customers take into account the full replacement cost of their assets and through the introduction of minimum sum insured figures to ensure customers have adequate coverage in the event of a total loss. Our business customers are encouraged to regularly update their sums insured.

While the insurance industry is well-placed to adapt products and pricing engines to address residual levels of underinsurance, there is also a role for government investment in addressing conscious underinsurance. Community concerns regarding underinsurance are most evident in the aftermath of major catastrophes. If governments seek to reduce the risk apportioned to them in the event of a natural disaster, it is imperative that they increasingly focus resources on pre-event strategies such as mitigation and resilience programs that lessen the impact of disasters in the first place.

Conclusion

Suncorp thanks the Panel for the opportunity to provide feedback in response to the Interim Report.

The Interim Report highlights the stable and competitive nature of the Australian general insurance industry. The current regulatory and policy settings for the sector have served the community well and Suncorp does not believe there is any case for systemic change in relation to general insurance.

However, we do believe there are opportunities for micro reform that would deliver considerable consumer benefit.

- The opening up of statutory insurance schemes to private sector competition would drive economic, productivity and efficiency gains and ultimately deliver better outcomes to injured employers.

- In relation to aggregators, regulation of the industry and their model of financial advice would increase consumer protection and promote the comparison of product value, rather than simply price.

- Governments and industry should work together to review disclosure requirements and consider ways to promote innovation and deliver information to customers in a way that best suits their needs.

- Governments should invest in mitigation and resilience activities in order to decrease their risk exposure in the wake of natural disasters.