

8 March 2019

Manager, Insurance and Financial Services Unit  
The Treasury  
Langton Crescent  
PARKES ACT 2600

By email: [Insurancedisclosure@treasury.gov.au](mailto:Insurancedisclosure@treasury.gov.au)

Dear Sir/Madam

## **Disclosure in General Insurance: Improving Consumer Understanding**

Suncorp Group ('Suncorp') welcomes the opportunity to respond to Treasury's consultation on the *Disclosure in General Insurance: Improving Consumer Understanding* discussion paper ('the Discussion Paper').

Suncorp offers a range of financial products including general insurance, banking and superannuation through various distribution channels, including our stores, online, via apps, and over the phone. As such, the Discussion Paper affects Suncorp and our customers in various ways.

Suncorp has been protecting Australians for more than 100 years. We have observed many trends in how customers access insurance, perceive insurance, and what they want from insurance. We are well qualified to provide insights on the themes explored in the paper.

Insurance can be complex for Australians to understand and appreciate. Government and regulators should lead on establishing clear and sensible laws and regulations that protect customers, while enabling industry to innovate on methods of effective customer communication.

Disclosure should provide customers with confidence that they have the right information to make the best decisions for their individual circumstances. It is important that customers have a basic understanding, at a minimum, of the role of insurance and their policy coverage, so they are not disappointed or surprised at claim time – especially as this can be an emotionally-charged time. However, the current approach to disclosure focuses on providing information and assuming that customers will understand it. This places insurers' obligations above consumers' needs for *effective* disclosure.

Suncorp does not believe that the way to increase customers' understanding of insurance products and services is through legislation that requires industry to provide more information, and in specific formats. This approach may stifle creativity and innovation, creating a 'one size fits all' approach that does not provide effective disclosure.

We believe that effective disclosure requires a range of different approaches that are more personalised, and which cater to customers' different needs. The path to better disclosure is through a principles-based framework that enables insurers flexibility in how and what they communicate to customers, ensuring that information provided is relevant, easy to understand and useful.

Suncorp has a track record of innovating to provide our customers with disclosure that is more appropriate for their needs. For our award-winning *Essentials by AAI* product, which is targeted at customers on low-incomes and who otherwise may not be able to afford insurance, we have:

- Developed an animated visual explanation of policy coverage<sup>1</sup>, to address concerns that many of our Essentials customers have poor literacy and cannot properly comprehend the complexity in a PDS; and

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<sup>1</sup> To view the animated explanation of insurance, see <https://www.essentialsbyaai.com.au/>.

- Translated product brochures into Mandarin, Hindi, Farsi and Arabic, to improve customers' access to insurance information in a language that may be more accessible for them.<sup>2</sup>

For our Trov single-item insurance product, we designed the PDS to be viewed on a mobile phone screen, in recognition of the preferred method of delivery for Trov's target market.

### **Key themes for reform of the disclosure regime**

Suncorp makes the following observations regarding key themes arising from the Discussion Paper and the need for reform of the disclosure regime. In addition to these comments, detailed responses to the issues for consultation are set out in **Appendix A**.

#### *A modern approach to disclosure*

The current disclosure regime relies on customers being provided with information in written format, under the assumption that they will have the capacity to comprehend and analyse that information, compare the coverage provided by products, and determine whether that product provides appropriate coverage for their needs.

This approach is not assisting the large numbers of Australians who are, for various reasons, unable to comprehend the disclosure provided. Almost half (47%) of adult Australians have document literacy skills below the minimum level required to meet the requirements of our modern, knowledge-based society.<sup>3</sup> Further, approximately 20% of Australians speak English as a second language, and these Australians are known to be more likely to have poor English literacy skills (64% vs 42%).<sup>4</sup>

With almost all insurance disclosure being provided in English, the large numbers of Australians who speak English as a second (or further) language are likely to struggle with documents and information provided under the current disclosure regime. Treasury's review of the insurance disclosure regime presents an opportunity to revise the disclosure regime to make insurance disclosure more accessible to all Australians.

Insurers should be able to freely use modern technologies to provide customers with disclosure. Suncorp is developing a prototype of visual disclosure for our AAMI brand, providing a visual representation of policy inclusions and exclusions (but which does not replace the full PDS). While this project remains in development, we would be happy to arrange a confidential briefing and demonstration, as well as to discuss how alternative formats and technologies can be used to assist consumers to understand their insurance coverage.

#### *Premium increases and component pricing included on renewal notices*

Suncorp supports providing customers with year-on-year comparisons on renewal notices, and as well as clear disclosure of the key risks that contribute to their premium (for home building and/or contents policies).

This approach would assist customers with greater understanding of the key natural hazard or other risks at their address, as well as prompting customers to consider options to invest in mitigation activities that will reduce their risk and their insurance premiums. Caution should be taken, however, to ensure that the amount of information provided to customers on renewal documents is not unnecessarily increased. Any additional material to be included should be limited to information where research has confirmed that customers want that information, and where there is a customer benefit in that information being included on renewals.

<sup>2</sup> See for example the Mandarin translation at [https://www.essentialsbyaai.com.au/wp-content/uploads/2018/08/Essentials\\_Product\\_Web\\_Mandarin.pdf](https://www.essentialsbyaai.com.au/wp-content/uploads/2018/08/Essentials_Product_Web_Mandarin.pdf)

<sup>3</sup> Australian Bureau of Statistics, *Adult Literacy and Life Skills Survey*, 2006. Available online at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Chapter6102008>

<sup>4</sup> Australian Bureau of Statistics, *Adult Literacy and Life Skills Survey*, 2006. Available online at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Chapter6102008>

### Standard Cover

Suncorp agrees that the standard cover regime needs to be updated to modernise the cover set out in the standard cover product terms. Suncorp does not, however, support the suggestion that insurers should have to provide a standard cover product, particularly if that is the *minimum* cover to be provided. Such an approach would likely encourage customers to assess insurance products on price alone, without regard to their insurance needs and the coverage provided.

Further, removing the ability to provide cover below the standard cover terms would likely result in insurers no longer being able to provide coverage to a significant number of Australians, particularly those in high-risk areas or those experiencing financial hardship.

Suncorp also notes that the rationale behind a mandatory standard cover product risks avoiding an assessment of a customers' specific insurance needs, and therefore may be inconsistent with the proposed Product Design and Distribution Obligations regime. Such an approach would also limit an insurer's ability to innovate.

### Standardised definitions of key terms

Suncorp considers there is merit in standardising some key terms in insurance contracts, particularly the definitions of key risks. The standard definition of 'flood' has helped to improve customers' understanding of flood coverage. Suncorp also considers that there is merit in standardising key terms used as part of exclusions.

Consideration of the terms to be standardised must ensure that insurers are able to innovate and differentiate their product offerings, maintaining competition in the insurance market.

### Review of the Key Facts sheet

Key Facts Sheets ("KFS") do not meet the objective of enabling customers to compare policies. Although recent research suggests that the KFS can improve customers' product choices<sup>5</sup>, this arises from its simplicity and the ability of consumers to understand the information provided.

Standardised definitions and the ability to include small amounts of other relevant information may improve the KFS' effectiveness, however care must be taken to ensure that the KFS is not lengthened to such an extent that customers' use of the KFS is affected.

### A principles-based approach

Suncorp considers that effective disclosure would be assisted by a focus on principles, rather than prescriptive requirements set out in the *Corporations Act* or other legislation. This position aligns with comments from the 2014 report of the Financial Systems Inquiry, the 2017 report on General Insurance from the Senate Economics References Committee, as well as industry and ASIC research (summarised on pages 3-6 of the Discussion Paper).

Suncorp agrees with the Discussion Paper's observation that "*The traditional assumption underpinning the current disclosure regime that more information is better for consumers ... need not be correct.*"<sup>6</sup> This has been demonstrated in the 2015 report by the Insurance Council of Australia's Effective Disclosure Taskforce<sup>7</sup> and subsequent consumer research report<sup>8</sup>, and recently in research performed by Monash University<sup>9</sup>.

Moving towards a focus on *effective* disclosure would encourage industry to explore possibilities for improving our customers' understanding – of both the risks they face, as well as what our products provide. A principles-based approach may increase the focus on fostering collaboration and innovation, as well as improving consumers' knowledge of risk and insurance.

<sup>5</sup> Malbon, J. & H. Oppewal. (2018), "(In)effective disclosure: An experimental study of consumers purchasing home contents insurance." Monash Business School and Monash Faculty of Law, research report of a study commissioned by the Financial Rights Legal Centre. Available from <https://australiancentre.com.au/publication/ineffectivedisclosure>

<sup>6</sup> Discussion paper, page 4.

<sup>7</sup> Insurance Council of Australia, *Too Long; Didn't Read – Enhancing General Insurance Disclosure* (October 2015).

<sup>8</sup> Insurance Council of Australia, *Consumer Research on General Insurance Product Disclosures – Research findings report* (February 2017).

<sup>9</sup> Malbon, J. & H. Oppewal. (2018), "(In)effective disclosure: An experimental study of consumers purchasing home contents insurance." Monash Business School and Monash Faculty of Law, research report of a study commissioned by the Financial Rights Legal Centre. Available from <https://australiancentre.com.au/publication/ineffectivedisclosure>

A transition to a principles-based approach would require a broad re-working of the entire legislative approach to disclosure. Although a significant exercise, the current review – combined with the support of industry, consumers and government stakeholders – provides a unique opportunity for change.

#### Appreciation of risk – advice, education and mitigation

As Treasury’s Discussion Paper notes “a fair and well-functioning insurance sector requires consumers to be well-informed.”<sup>10</sup> Ensuring that our customers understand the risks they are require coverage for is a key aspect of helping them to obtain appropriate insurance, as well as identifying opportunities to mitigate against those risks.

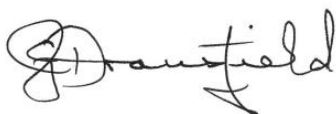
Insurers should be able to use information specific to customers (whether personal information or, in relation to property, information about a specific address) to provide targeted information and support, without the burden of complying with the financial advice regime.

#### **Conclusion**

Thank you for the opportunity to contribute to this important discussion. At Suncorp we are consistently striving to improve customer outcomes, and we look forward to ongoing discussion with improve disclosure.

Should you have any questions or require further information, please do not hesitate to contact Lachlan Rees, Senior Advisor, Government, Industry and Public Policy on 0419 861 990 or by email to [lachlan.rees@suncorp.com.au](mailto:lachlan.rees@suncorp.com.au).

Yours faithfully



**Gary Dransfield**

CEO Insurance

Suncorp Group

#### **Appendix A – Feedback on discussion questions**

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<sup>10</sup> Discussion Paper, page 2.

## Appendix A – Response to Consultation Questions

### Premium increases and component pricing included in renewal notices

#### (Questions 1-13)

##### Component Pricing

In general terms, in the insurance context ‘component pricing’ is understood to mean the breakdown of components (or some of) that form an overall premium charged to a customer.

For example, as is required by law<sup>11</sup>, insurance quotes and renewals include a breakdown that separates the base premium (which covers the risk taken on by the insurer) from taxes and any other applicable charges. Combined, these components make up the overall premium to be paid by the customer.

The base premium can be made up of many components, which can change according to the type of insurance and individual insurers’ underwriting and pricing models. For example, components of a home building policy’s base premium could include natural hazard risk, other risks, reinsurance, costs relating to any policy options taken by the customer, commission (if applicable), and operating or management fees.

In addition to specifying the amount of taxes and charges, the primary objective of disclosing a breakdown of insurance premiums on renewal notices should be to inform customers of the elements of their risk.

Research has shown that renewal notices (followed by a KFS) are the most read and considered insurance documents.<sup>12</sup> Research has also shown that, other than the premium to be paid, customers are most interested in understanding more about the risks that are relevant to their circumstances (for example, a house being insured).

Disclosing a summary of the key risks that an insurer sees as relevant to a property would enable customers to better understand how the insurer views their level of risk of needing to make a claim, as well as identify specific things to consider when determining the most appropriate cover for their specific needs. This approach may assist to improve customers’ decision-making; more informed customers will be able to better compare policies, and purchase products that best suit their insurance needs.

Disclosing the key risks for a property would also enable customers to identify possible activities to reduce their exposure to those risks, mitigating the likelihood of them experiencing loss and damage and needing to make a claim. Disclosure of the key risks could be accompanied by information (or links to resources) demonstrating how customers can act to mitigate those risks. Customers may be able to use those resources to undertake activities that may reduce their insurance premiums, such as under Suncorp’s Cyclone Resilience Benefit.

##### Concerns in disclosing key risks

Insurers assess and price risk in different ways, and these processes are part of their intellectual property. Insurers may be hesitant to provide detailed breakdowns on documents provided to customers. While there may be the potential for competition issues if insurers are able to use disclosure of key risks to understand others’ pricing approaches, this is outweighed by the likely benefit to customers’ and insurers’ shared interests through promoting mitigation activities and reducing claims risk.

Disclosure of risk on renewal notices in a manner that is directly linked to premiums may result in customers shopping between insurers based solely on the insurers’ view of their risk profile, rather than considering the coverage provided, the different risk assessment and pricing approaches used by insurers, and ways that the

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<sup>11</sup> For example, Commonwealth legislation regarding the GST, stamp duty legislation in various states, and the ESL legislation in NSW (in relation to property insurance).

<sup>12</sup> Insurance Council of Australia, *Consumer Research on General Insurance Product Disclosures – Research findings report* (February 2017), p31.

consumer could mitigate their risks. There may be an increase in consumers contacting insurers to query the assessment of risk, particularly because the data made available to insurers to assess risk (such as council flood mapping) can be limited in some areas, or not updated frequently. While increases in customer contact may increase insurers' operational costs, there may also be a corresponding drive to improve the data available to insurers as well as the potential for reduction of claims risk arising from mitigation activities.

### Encouraging mitigation of risk

Suncorp supports efforts to increase customers' understanding of the risks relevant to their property, as well as transparency of how insurance premiums are calculated. Suncorp has long called upon governments (at all levels) to invest in measures that will reduce risk across the community. We want our customers to be aware of their risks, and to have a role in advocating for governments to take steps to reduce risk in the community.

Suncorp has led investment in and innovation around recognising mitigation measures, particularly in relation to the key drivers of damage (and therefore claims) during a cyclone.

We introduced a Cyclone Resilience Benefit (CRB) for Suncorp Home Insurance customers in 2016. The CRB is an insurance premium reduction available to certain Suncorp Home and Landlord insurance customers who have properties located in parts of northern Australia that are most likely to experience cyclones. The CRB recognises specific property features that can help reduce damage to a property during a cyclone, as well as the likelihood of making a claim. Eligible customers who have invested in these features can receive a reduction of their premium (of up to 20%), compared to what the premium would have been without those mitigation measures. By November 2018, after less than three years of the CRB being offered, more than 40,000 Suncorp customers had applied for and received a benefit under the CRB. We would welcome the opportunity to provide more information about the CRB and the mitigation activities that are currently recognised.

The CRB premium reduction is clearly stated on both quotes and renewal notices. Suncorp believes that this is a preferable approach, compared to providing an itemised breakdown, because the overall amount (and reduction) provides a signal to consumers of their overall risk, and the recognition of their investment in mitigation.

Suncorp recognises that other insurers may choose to implement measures in this area based on their own consumer insights, claims data, or other relevant research (and have done so). This is an example of a competitive market in action.

Measures to mitigate against other risks are already regularly considered when determining premiums. For example, when pricing contents insurance an insurer will often ask whether a building has particular types of locks on doors and locks on windows, as these can mitigate against theft. Similarly, parking a vehicle in a garage (rather than on the street) can indicate that there will be less risk of theft or damage from hail.

Suncorp notes that the ACCC has asked whether mitigation activities should be prescribed in legislation. While Suncorp's CRB is currently calculated based on five mitigation categories, this is an ongoing, emerging area. Mandating any specific list of measures has the risk of those (prescribed) measures becoming outdated in a short period of time, as further research and mitigation analysis identifies additional mitigation categories. In this regard, Suncorp does not consider that mitigation discounts or specific categories of mitigation works should be set out in legislation. Rather, the dual benefits (to customers and insurers) of improving resilience, mitigating risk and reducing claims exposure should result in the insurers continuing to develop similar discounts.

Further, the national basis of insurance disclosure legislation means that it would not be appropriate to prescribe specific mitigation measures. For example, mandating the disclosure of cyclone mitigation measures would result in this information being included renewal notices in the southern states, where such information is of little (or no) relevance.

Any consideration of prescribing the inclusion of mitigation measures on insurance disclosure documents must maintain the ability of insurers to innovate and respond to customer needs, as well as emerging risks and insurers' own insights, as well as being consistent with the principles of effective disclosure.

Disclosure of risk components in products other than home building or home contents

Suncorp considers that providing customers with more information about components of their premiums would be most appropriate for home (building and/or contents) insurance. This is because home insurance policies have the most benefit to gain from customers understanding their specific risks, and opportunities for mitigation activities to reduce their risk.

Other categories of insurance products where provision of risk breakdown may be useful to customers include landlord insurance, and insurance for small business (where buildings are involved).

We do not consider that more information about the risk component of premiums for motor insurance would be warranted, given that coverage for motor insurance is generally better understood by consumers and the key risks are based on the insured vehicle and insured drivers' characteristics, which are known to the customer.

Breakdown to be provided

As noted above, federal and state taxes and charges are already specifically identified on renewal notices. Where relevant, Emergency Services Levy (NSW) and Fire Services Levy (commercial policies in Tasmania) are also specifically identified. It is important for customers to know the amount that the addition of taxes contributes to their overall premium, which can be a sizeable amount (for example, stamp duty can add as much as 11% to the cost of a premium).

Rather than identify a specific premium value attributable to a single perils risk (such as flood), customers would be better assisted by an outline of the insurers' view of the key risks to their property. This was the finding of consumer research performed in 2015 for the Insurance Council of Australia's Disclosure Taskforce: 78% of respondents agreed that disclosure of natural hazard risk would "improve their understanding of their potential risk from a natural hazard based on where they live", with 77% saying that disclosure "would be useful to them".<sup>13</sup> Conversely, taking into account that renewal notices will shortly also include the previous years' premium, customers would not be assisted by also including yet more numbers on renewal notices.

To enable the greatest understanding by customers, the breakdown of risks should be represented visually. For example, a system of disclosing the top three or five risks, with a rating for each (eg low, medium, high or very high) and colour coding could be appropriate. This could be depicted as a table, bar graph, or in another format. The following example of such a rating was included in the ICA's *Too Long; Didn't Read* report<sup>14</sup>, and was the example put to respondents in the survey referred to above:

**Illustration 1: Example of natural hazard risk disclosure**

**Your level of risk**

We have assessed your flood risk as high:



As discussed above, disclosure of the key risks should also be accompanied by information (or links to resources to information, at the least) on how customers can act to mitigate those risks.

Suncorp considers that it would be reasonable for insurers to disclose the top three or five risks to a property (for home building and/or contents policies).

<sup>13</sup> Insurance Council of Australia, *Too Long; Didn't Read – Enhancing Insurance Disclosure* (October 2015), page 43.

<sup>14</sup> Insurance Council of Australia, *Too Long; Didn't Read – Enhancing Insurance Disclosure* (October 2015), page 43.

## Disclosure of previous year's premium on renewal notices

As noted in the Discussion Paper, existing programs will result in renewal notices including the premium for the expiring insurance period, allowing for easy year-on-year comparison. Insurers will be introducing this as part of the revised General Insurance Code of Practice (which is intended to commence later in 2019), in addition to requirements relating to the Emergency Services Levy in NSW.

Suncorp considers that in addition to base premium, the applicable taxes and charges for the expiring period's premium should also be disclosed. This will enable customers to assess how much of their overall payment goes to government (at both state and federal levels).

Suncorp is currently implementing disclosure of the expiring period's premium as part of the NSW Emergency Services Levy requirements, as well as in preparation for compliance with the revised General Insurance Code of Practice. Rather than just providing the previous period's overall premium, our approach is to provide our customers with more information so as to provide a more meaningful comparison of year-on-year changes.

In addition to the previous period's base premium, applicable taxes and charges and overall premium, Suncorp will be disclosing the expiring period's sum insured as well as the percentage change. Suncorp supports moves to require insurers to disclose the percentage change on renewals, as this would be easily understood by customers.

Below are examples of year-on-year comparisons for an AAMI Motor policy and an AAMI Home Building and Contents policy, which will be implemented from May 2019.

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### Motor Policy

On the front page of the renewal:

Last Year's Annual Premium	\$4,093.83
Change on last year *18.0%	

**\*Why your premium may change**

Each year your premium is likely to change even if your personal circumstances haven't. Factors like the number of claims we experience, improved data and changes to the cost of running our business can impact your premium. Your premium may also be impacted by changes to rewards and discounts.

For more information please visit [www.aami.com.au/premium](http://www.aami.com.au/premium)

### Home Building and Contents policy

On the front page of the renewal:

Total Amount Payable	\$2,909.66
Last Year's Annual Premium	\$2,615.37
Change on last year *11.3%	

**\*Why your premium may change**

Each year your premium is likely to change even if your personal circumstances haven't. Factors like the number of claims we experience, improved data and changes to the cost of running our business can impact your premium. Your premium may also be impacted by changes to rewards and discounts.

For more information please visit [www.aami.com.au/premium](http://www.aami.com.au/premium)

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## Motor Policy

## Home Building and Contents policy

On the second page of the renewal:

Premium Details		
2013 Bmw X1 Sdrive 20i Xline E84 My13 4d Wagon		
Comprehensive Car Insurance		
	Last Year	This Year
Amount Covered	\$30,000	\$30,000
Base Premium	\$2,864.57	\$3,052.63
FSL/ESL	\$343.75	\$518.95
GST	\$320.84	\$357.16
Stamp Duty	\$564.67	\$903.61
<b>Total Amount</b>	<b>\$4,093.83</b>	<b>\$4,832.35</b>
<p><b>When referring to an amount from 'last year' on this notice</b></p> <p>If you have made a change to your policy in the last 12 months, when we refer to an amount from last year, it may not be the amount you paid. To provide a more useful comparison, we are showing you an amount for your cover as of your most recent change.</p>		

On the second page of the renewal:

	Last Year	This Year
<b>Building</b>		
Sum Insured	\$923,866	\$923,866
Base Premium	\$1,245.25	\$1,252.83
FSL/ESL	\$149.43	\$212.98
GST	\$139.47	\$146.58
Stamp Duty	\$245.46	\$370.85
<b>Total Amount</b>	<b>\$1,779.61</b>	<b>\$1,983.24</b>
<b>Contents</b>		
Sum Insured	\$45,000	\$45,000
Base Premium	\$367.25	\$367.07
FSL/ESL	\$44.07	\$62.40
GST	\$41.13	\$42.95
Stamp Duty	\$72.39	\$108.66
<b>Total Amount</b>	<b>\$524.84</b>	<b>\$581.08</b>
<b>Unspecified Personal Effects</b>		
Sum Insured	\$5,000	\$5,000
Base Premium	\$92.06	\$92.32
FSL/ESL	\$11.05	\$15.69
GST	\$10.31	\$10.80
Stamp Duty	\$18.15	\$27.33
<b>Total Amount</b>	<b>\$131.57</b>	<b>\$146.14</b>
<b>Specified Personal Effects</b>		
Sum Insured	\$6,000	\$6,000
Base Premium	\$125.49	\$125.84
GST	\$14.06	\$14.72
Stamp Duty	\$24.74	\$37.25
<b>Total Amount</b>	<b>\$179.35</b>	<b>\$199.20</b>

Suncorp supports efforts to make explanations of changes available to customers, however we are concerned about the amount of information on renewal notices (which are already lengthy, given the amount of information prescribed in the relevant regulations).

Rather than provide this information on renewal notices (increasing the length and complexity of renewals), Suncorp is creating a website that can provide our customers with more information about reasons for changes in premiums. Our renewal notices will direct our customers to this website, as well as inviting them to contact us via telephone.

### Sum insured, excess and links to MoneySmart

Suncorp's approach to implementing the NSW ESL and General Insurance Code requirements will see us disclosing the excess applicable to the expiring period's policy only where it is set at the standard excess for the policy *and* we have adjusted the amount of the excess. This provides our customers with transparency about such adjustments.

We would be open to disclosure of year-on-year excess being mandated, as this would enable our customers to make a meaningful comparison between that period and the proposed renewal. Disclosure of the excess may also prompt customers to consider adjusting the excess to manage the premium payable.

Suncorp supports disclosure of the types of costs that are included in the sum insured. There is scope for disclosure of a minimum sum insured (if applicable). Calculators are provided to our customers as part of the quote process for many of our products, and where calculators are not available to customers then they are asked to confirm the key information taken into account (which aligns with the information used by calculators). These processes incorporate assessment of the types of costs that are included in the sum insured.

We do not consider that there are risks in disclosing types of costs that contribute to the sum insured. These are described in the PDS, and we would be happy to disclose them more prominently – so long as this is done in a manner that does not provide too much information to customers, reducing the effectiveness of disclosure documents. It would be preferable to direct customers to a website or other source for this information, rather than include this information on renewal notices. We are currently developing a website that will assist customers with this information, including through videos to assist customers with poor literacy.

Suncorp also supports including a link to *MoneySmart* on renewal notices. We note that a reference to *MoneySmart* is already included in the prescribed Key Facts Sheet format for home building and home contents policies. Other resources that could be considered include the Insurance Council's *Understand Insurance* website.

## Standard Cover

### (Questions 14-21)

#### The role and purpose of the standard cover regime

The standard cover regime was introduced in 1984, with the purpose of ensuring that consumers were aware of exclusions and limitations in an insurance policy they were considering.

In general terms, the intention of the standard cover regime is to prescribe a level of coverage and amounts to be paid for specified events, which will apply unless an insurer has, prior to the contract being entered into, 'clearly informed' a consumer that lesser or no cover for those events will be provided.<sup>15</sup> In this regard, the standard cover regime is intended to provide consumers with a 'safety net', setting out the coverage to be provided unless they have told otherwise.

Over time the insurance market has moved away from the basic policy terms set out in the standard cover regime, towards more tailored product structures and coverage that responds to modern risks, and which meet the needs of current and emerging customer segments. As a result, few insurers (if any) currently provide products in the form of the standard cover policy wordings. The relevance of the standard cover regime to current insurance practices can be assessed by the fact that ASIC's *MoneySmart* website discusses the role of the PDS and KFS, but does not mention the standard cover regime.

Further, prior to the introduction of the standard cover regime, the common law required insurers to provide a copy of the contract to customers. The standard cover regime altered this requirement – in theory, if a standard cover product was issued then a copy of the contract would not need to be provided. This position was altered again with the introduction of the mandatory disclosure regime in Chapter 7 of the *Corporations Act*, requiring insurers to provide a copy of the contract to customers – regardless of whether the coverage provided requires disclosure under the standard cover regime.<sup>16</sup> To the extent that standard cover was intended to enable customers to have the certainty of the prescribed coverage without receiving comprehensive disclosure, this *Corporations Act* requirement negates that objective.

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<sup>15</sup> *Insurance Contracts Act 1984*, section 35.

<sup>16</sup> *Corporations Act 2001*, Part 7.9, Division 2.

### The role of the standard cover regime

Suncorp considers that the standard cover regime still has a role to play in the modern insurance market. If updated to provide a basic description of key risks and coverage, and if necessary amendments were made to the relevant provisions of the *Corporations Act*, the standard cover regime could assist efforts to simplify the disclosure that must be provided to customers – perhaps by providing a base level, against which the coverage offered by products could be assessed.

However, putting aside the disclosure requirements under the *Corporations Act*, the approach of needing to disclose differences between the standard cover terms and the coverage offered by a product relies on an assumption that customers are aware of the standard cover terms. Suncorp is not aware of any recent customer testing on this issue, however given that insurers do not refer to or rely on the standard cover terms or that the regime is not mentioned on *MoneySmart*, it is unlikely that many consumers would have an awareness that there is a standard cover regime.

### Updating the standard cover regime

A key reason for insurers' move away from the prescribed policy terms is the need to refine definitions and coverage to ensure products offer insurance coverage that reflects modern risks and claims experience, but remains affordable for our customers. With the standard cover terms having not been updated since the mid-1980's (apart from the standard definition of 'flood' in 2012, and some minor amendments in 2017), they require a comprehensive review in order for the regime to return to having a role in any reformed insurance disclosure regime.

For example, the standard cover terms for home building and contents insurance require updating to reflect technologies and risks that have developed since the mid 1980's. For example:

- Electronic and computer equipment is now far more common in households than envisaged in the standard cover terms, and the regime does not mention modern risks such as cyber-attack or cyber-liability;
- The standard cover terms do not mention hail damage, which is an increasingly frequent event;
- The current definition of 'aircraft' would not include drones; and
- There can be insurable risks arising from buildings that now produce their own power (through solar or other means).

Community and industry expectations regarding how insurance interacts with social issues have also developed significantly since the standard cover terms were first devised. For example, many insurers now recognise the need for a sensitive approach towards innocent insureds who make claims related to instances of family violence. While this issue is being addressed at industry level through the current Review of the General Insurance Code of Practice, there may be a role for inclusion of terms relating to vulnerable customers in an updated standard cover regime.

Suncorp notes that the results of the ICA's current research regarding core risks for home building/contents insurance may provide insights into the coverage that consumers would like to see included in any updated standard cover regime. Similar research may be warranted for motor vehicle, travel or other insurance products where terms could be included in an updated standard cover regime.

### Mandating standard cover

Suncorp notes the ACCC's recent suggestion that it should be mandatory for "insurers offering home insurance/contents insurance products [to] offer a home insurance/contents insurance product that does not deviate (through inclusions/exclusions) from the revised standard cover terms."<sup>17</sup>

Suncorp acknowledges the principle behind this suggestion, however we caution that any requirement to offer a standard cover product should not be implemented in a way that requires this product to be the *minimum* cover provided by insurers. Further, Suncorp would not support any moves to require insurers to offer a standard cover product as a 'default' insurance product. There are various reasons for this position, some of which are described below.

Insurers are currently able to derogate from the standard cover regime – either to offer cover that is broader or narrower than the terms prescribed. An example of this is the position taken regarding flood, which is a prescribed peril in the standard cover regime. All of Suncorp's consumer property products include coverage for flood as standard, however it is possible to opt-out of flood cover in AAMI policies and strata insurance offered through our Resilium network. This ensures that customers whose properties are in areas with very high flood risk can still purchase insurance at an affordable rate (albeit possibly without flood cover), rather than going without insurance altogether.

The ability to offer products that provide less coverage than prescribed in the standard cover regime allows insurers to design products for a greater range of customers. For example, Suncorp's *Essentials by AAI*, Australia's first micro-insurer, offers coverage that is narrower than the standard cover terms. *Essentials* was purpose-designed for low-income earners and those receiving benefits through Centrelink, offering motor vehicle and contents cover to those who cannot afford more comprehensive policies. *Essentials* was developed using a human-centred design approach that involved customers, customer advocates, financial counsellors, academics and partners such as Good Shepherd Microfinance. The cover provided is what was indicated as being suitable and was tested on customers prior to launch. Any moves to require insurers to provide a 'default' cover (based on standard cover terms) as a *minimum cover* would result in products such as *Essentials* ceasing to exist, reducing access to insurance for a significant proportion of the population.

Further, if insurers were required to offer a standard cover product, there is a significant risk that customers would view this as a default product, purchasing this product without considering their individual risks and insurance needs. This would add to concerns about customers considering insurance purchases based on price alone.

Finally, Suncorp notes that there is an inconsistency between the suggestion of mandating a standard cover product (whether as a 'default' product, or as minimum cover) and the product suitability considerations required by the Product Design and Distribution Obligations legislation that is currently before Parliament (which Suncorp supports).

### Protecting competition in the insurance market

Suncorp also notes that a requirement to issue a standard cover product would also likely create barriers to new entrants into the general insurance market. A standard cover product would need to be a new product, with associated set-up costs. Particularly in the period shortly after launch, the costs of this product would need to be subsidised by other products in an insurer's portfolio. This may not be prohibitive for larger general insurers, but would likely create difficulties for smaller insurers, who may be required to exit some markets.

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<sup>17</sup> ACCC, *Northern Australia Insurance Inquiry – First Interim Report* (December 2019), Recommendation 5.

### Deviating from standard cover

Suncorp considers that the existing ‘clearly inform’ requirement is appropriate, as this provides clear guidance to insurers to ensure that deviations from standard cover are brought to customers’ attention.

However as discussed above, the appropriateness of this requirement needs to be assessed in the broader context of customers’ lack of knowledge of the standard cover regime, and the disclosure requirements set out in Division 2 of Part 7.9 of the *Corporations Act*. In practice, insurers provide copies of full policy wording because of the *Corporations Act* requirements, as well as the fact that (in general) customers are not aware of the standard cover terms.

Greater awareness of the standard cover terms and review of the relationship between standard cover and the *Corporations Act* requirements may enable insurers to reduce the amount of material provided to customers, including by providing summaries of how a product deviates from the standard cover regime (once updated).

Suncorp does not consider that an approach of expressly identifying deviations from standard cover would assist in providing effective disclosure to customers. Given the extent of differences between modern insurance policies and standard cover terms, this approach would lead to longer, more complex disclosure documents – and resulting in customers being even less likely to read those documents than is currently the case.<sup>18</sup> This is not an issue unique to insurance, nor to financial services – issues with consumer understanding of terms and conditions from providers like Apple, Amazon and other technology providers have been well documented.<sup>19</sup>

## Standardised definition of key terms

### (Questions 22-26)

Suncorp considers that there is merit in standardisation of key terms in insurance policies. Standardisation of key terms would likely assist customers to understand the coverage provided by an insurance policy, as well as assist customers in comparing insurance policies.

The ACCC, in the First Interim Report from its Northern Australia insurance inquiry, has recommended that Treasury consider standardising key terms regarding prescribed events. Suncorp considers that this has merit.

However, as noted in relation to standard cover, any moves to standardise definitions of insured events should not restrict insurers ability to not provide cover for those events, or to offer cover at levels above what is set out in the defined term.

Moves to standardise key terms may give rise to concerns around the reduction of competition in the market, however in our view those concerns should not take precedence over the potential customer benefit that would arise from standardisation. Insurers must, however, remain free to compete on coverage (including whether cover is provided for the risks with standardised terms), claims and service delivery, price, and to develop their own definitions for other terms.

The ICA’s current research on core risks for home building policies may provide a starting point for standardisation of definitions for the key risks that customers view as being core coverage requirements for those policies.

<sup>18</sup> See, for example, Malbon, J. & H. Oppewal. (2018), “(In)effective disclosure: An experimental study of consumers purchasing home contents insurance.” Monash Business School and Monash Faculty of Law, research report of a study commissioned by the Financial Rights Legal Centre. Available from <https://australiancentre.com.au/publication/ineffectivedisclosure>

<sup>19</sup> For example, a 2017 survey by Deloitte (in the USA) found that “91 percent of respondents willingly accept legal terms and conditions without reading them before installing apps, registering Wi-Fi hotspots, accepting updates, and signing on to online services such as video streaming. For ages 18 to 34, the rate of acceptance of terms and conditions, without reading them, reaches 97 percent.” Deloitte, “2017 Global Mobile Consumer Survey: US edition – The dawn of the next era in mobile”. Accessible online at <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/technology-media-telecommunications/us-tmt-2017-global-mobile-consumer-survey-executive-summary.pdf>

### The standard definition of flood

Complaints regarding flood have reduced since the definition of 'flood' was standardised. However, the reduction in complaints has been significantly influenced by the consumer insurance market largely adopting flood cover as a standard inclusion, leading to a reduction in complaints relating to coverage for flood.

In this regard, it is the *coverage* provided by an insurance policy that is most relevant for claims decisions and any resulting complaints, rather than the definition of an insured event. Despite this, Suncorp considers that there is merit in standardising definitions in order to improve comparisons between policies.

### What terms could be standardised?

In general, standardised definitions for perils would provide customers with confidence to compare insured event coverage between policies. This would also assist the comparisons invited by the KFS.

For example, Financial Rights Legal Centre recently compared the coverage for fire and explosion from a range of home building policies, finding that there were at least five different approaches to the names of these perils, let alone the definitions themselves.<sup>20</sup>

Suncorp considers that standardising perils definitions would likely increase customers' ability to compare between policies, as well as reducing the number of disputes relating to coverage. In our view, the standardised definition of flood has worked well and could be replicated for other natural hazard perils.

'Actions of the sea' is a term that is commonly identified as one that could be standardised across industry. There may be merit in a standardised definition of this peril, particularly with the increasing risk of sea level rise and coastal erosion arising from climate change related events. A standardised definition of 'actions of the sea' could assist to improve customers' understanding of coverage that is provided, before any significant natural disaster events where disputes around coverage may arise (as occurred following the floods in 2011).

Exclusions such as those for damage arising from 'wear and tear' can be a source of dispute between customers and insurers, usually around the application of such clauses. However, these disputes usually relate to the subjective application of an exclusion, rather than the wording of a term itself.

While there may be scope to standardise some exclusions, the potential effects of standardisation must be considered. For example, as mentioned above, standardisation may lead to reductions in customer choice, or inhibitions on innovation in product design. Any moves to standardise exclusions should be targeted at areas that have identified benefits, following detailed consultation and customer testing, and which have been identified as not resulting in negative or unintended effects (both for customers and industry).

Suncorp would welcome the opportunity to participate in consultation on exclusions that could be the subject of standardised terms.

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<sup>20</sup> Financial Rights Legal Centre, *Overwhelmed – An overview of factors that impact upon insurance disclosure comprehension, comparability and decision making* (September 2018). Available online at [https://financialrights.org.au/wp-content/uploads/2018/09/180904\\_Overwhelmed\\_FINAL.pdf](https://financialrights.org.au/wp-content/uploads/2018/09/180904_Overwhelmed_FINAL.pdf).

### Impact on underwriting

Standardising definitions may reduce the ability of insurers to offer products targeted at specific customers, particularly low-income earners or those who are willing to accept limited coverage for a cheaper premium.

Any standardised definitions must not result in insurers electing to not cover the relevant risk. Rather, any standardised definitions should be based on detailed customer research as well as an assessment of what is currently offered by insurers, and drafted with a view to providing a single definition that would result in the least change from what is currently on offer. The definitions must be simple and easily understood by customers (with confirmation of this through customer research).

Suncorp looks forward to discussing this issue further, either directly or as part of future consultations.

## Review of the Key Facts Sheet

### (Questions 27-34)

Any review of the KFS must consider its history, as well as its purpose. The KFS was developed in response to customer concerns about insurers' transparency about policy coverage following floods in Queensland, New South Wales and Victoria in 2010 and 2011, particularly whether a policy provided coverage for flood or not. As noted in the Explanatory Memorandum to the legislation introducing the requirement to provide a KFS:

*"The number of people adversely affected by these natural disasters as a result of inadequate insurance cover highlighted the level of consumer confusion that exists in relation to what is and is not covered by [home building and home contents] insurance policies."<sup>21</sup>*

The Explanatory Memorandum explained the purpose of the KFS as follows:

*"The KFS, by outlining key information in a concise form, will provide increased simplicity, consistency and comparability for consumers when they are making decisions regarding the purchase of [home building and home contents] insurance policies. The KFS will also facilitate more effective decision making through an increased level of familiarity (knowing what to look for and the meaning of certain words and concepts)."<sup>22</sup>*

and

*"The KFS will make information about what is covered by [home building and home contents] policies more accessible to consumers. In particular, the KFS will outline key information in relation to the [home building and home contents] policies in an easy to read and consumer friendly layout, enabling consumers to access the key information in a simple and effective way."<sup>23</sup>*

Suncorp does not consider that the KFS is currently achieving these objectives. The KFS currently provides a basic summary of the coverage provided by a policy, however it does not enable customers to adequately compare the coverage offered by different policies.

The effectiveness of the KFS in assisting customers to assess policy coverage and compare coverage between policies was recently considered by Monash University, who found that:

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<sup>21</sup> Explanatory Memorandum to the *Insurance Contracts Amendment Act 2012*, [2.2].

<sup>22</sup> Explanatory Memorandum to the *Insurance Contracts Amendment Act 2012*, pp 4-5.

<sup>23</sup> Explanatory Memorandum to the *Insurance Contracts Amendment Act 2012*, [2.5].

*“even in idealised circumstances where consumers are provided KFSs for making a simple choice between a good and a bad policy, there is no systemic increase in the number of consumers who will purchase the good product.”<sup>24</sup>*

By prescribing the list of perils and inviting the insurer to comment on what coverage is provided (including by mentioning ‘some’ exclusions or limits), many KFS are very similar, if not almost identical. While a KFS does direct customers to compare specific policy coverage by looking at the PDS, the approach taken in the KFS does not encourage detailed consideration of the specific coverage provided by a policy. It would easily be possible for a customer to look at two policies’ KFS and assume that the policies provided the same coverage for a specific peril (for example, ‘malicious damage’), whereas in fact one policy’s wording may in fact exclude coverage for many of the instances where that peril might eventuate.

#### Information to be provided on the KFS

As a general principle, Suncorp cautions against lengthening the KFS, given the history of its development. The current prescribed format is based on the results of detailed consultation with both customers and industry, and the content reflects what customers sought to be included. Given the risk that adding information will reduce customers’ use of the KFS, any moves to increase the amount of information provided on a KFS (and/or its length) should be based on detailed further consultation with customers and industry, and on the results of further research. However, Suncorp does consider that the current prescribed content for the KFS should be reviewed.

The ICA’s core risks research may provide insights not only regarding the cover that customers wish to see as part of insurance policies, but also that should be listed in the KFS. Further research specific to the KFS may be required, including whether exclusion of specific risks should also be disclosed.

We also note that the prescribed perils to be listed on the KFS are common. Customers may be assisted by disclosure of exclusions that they may not be (or may be less likely to be) aware of.

The ICA’s *Too Long; Didn’t Read* report identified several issues that could be included in the KFS, in addition to the information currently prescribed. These include exposure to natural hazards, whether a policy provides sum insured or complete replacement cover, indicative rebuilding costs, and examples of potential steps to mitigate risk.<sup>25</sup>

Other policy coverage issues that are not currently discussed in a KFS and which may assist customers to compare policies include:

- Specific coverage for removal of debris (and any limits that may apply); and
- Exclusions for ‘wear and tear’ or maintenance;

#### Removing the prescribed form for the KFS

Suncorp agrees that a more flexible approach to disclosure would enable insurers to provide information to customers in ways that may better suit their individual needs. In this regard, removing the prescribed format may assist insurers to provide more effective disclosure.

While the KFS is intended to be a short document that assists customers to compare insurance policies, a KFS is required to include a significant amount of information that is not directly related to the relevant individual product. For example, almost all the information on page two of the KFS (sections 3 and 4) is not tailored to the specific policy on offer, with generic comments regarding policy limits, excesses, legal liability, cooling off periods, and maximum cover. Compared to the information presented on the first page of the KFS, this information is likely to be of little use to customers seeking to compare policies.

<sup>24</sup> Malbon, J. & H. Oppewal. (2018), “(In)effective disclosure: An experimental study of consumers purchasing home contents insurance.” Monash Business School and Monash Faculty of Law, research report of a study commissioned by the Financial Rights Legal Centre, p7. Available from <https://australiancentre.com.au/publication/ineffectivedisclosure>

<sup>25</sup> Insurance Council of Australia, *Too Long; Didn’t Read*, (2015) page 63.



### Extending the KFS to other insurance products

Customers may be assisted by a KFS for insurance products where they are sold with a standard-form contract. Examples could include motor vehicle insurance and travel insurance. For motor vehicle insurance, customers may benefit from simpler disclosure of the policy's coverage regarding repair arrangements, limitations in cover, and (for third party products) whether the policy provides an uninsured motorists extension. This may assist in reducing 'claims shock' if a customer needs to make a claim on their policy.

However, care must be taken to ensure that the KFS does not become seen as a comprehensive disclosure document – whether in its current form, and especially if more information is included. Further, it is important to maintain the KFS' position outside the formal contractual bargain (as is currently the case).

Any moves to extend the use of the KFS to other product lines must be based on consumer research demonstrating that it would be of benefit to customers, as well as research on the issues to be set out in the KFS.

A KFS may not be feasible for more bespoke products (such as small/medium enterprise packages), and should not be required where a product is sold through a channel that provides personal advice (although insurers may wish to make documents available through those channels).

### Improving customer awareness of the KFS

Suncorp agrees that the KFS (and PDS) should be prominently placed on insurer websites. To achieve its purpose of enabling customers to compare policies, the KFS should be made easily available to customers if they are seeking to compare coverage prior to obtaining a quote, as well as during the quote and sales process.

Customer awareness of the KFS could be increased by requiring a KFS to be provided alongside copies of renewal notices (although this would result in increased costs for insurers). As discussed earlier, standardisation of definitions for perils included on the KFS may also assist customers to compare.

Insurers could also be given the flexibility to include additional comments regarding coverage or exclusions that they view as relevant to the particular policy (in addition to those prescribed). For example, based on an insurer's claims or complaints experience regarding a particular policy term, they may wish to increase the amount of disclosure about that term by including comments about it on the KFS. Alternatively, if a policy has a key product feature that differentiates that policy from other policies in the market (for example, a free hire car following a motor vehicle accident) then insurers may wish to highlight that on the KFS. Any moves to allow insurers to add to the KFS should, however, be within a prescribed page limit so that the KFS is not lengthened to such an extent that customers become unlikely to read or absorb the information provided.

In any reforms of the prescribed KFS, it must be important to not create the impression that the KFS is a comprehensive statement of the policy terms, supplanting the role of the PDS. Customers' ability to use the KFS to compare policies, is, as stated earlier, currently hampered by the similarity between KFS for different policies, the lack of information around differences in definitions or exclusions, and the fact that the KFS is pitched at a high level.

### Alternatives to the KFS

Suncorp considers that the KFS does have a role to play in assisting customers to compare policies, however at present it is not meeting its stated objectives. Standardised definitions, flexibility in highlighting other key policy offerings or exclusions, and flexibility of formats may assist in increasing the utility of the KFS.

In accordance with our overall views regarding disclosure, Suncorp considers that customers would benefit from a more flexible, principles-based approach that enables the provision of information to customers in a format that is most appropriate for them, and in a delivery method of their choice. Further research may be required to identify potential alternatives to the current approach.

## A modern approach to disclosure

### (Questions 35-37)

The format of the PDS required by current regulation does not promote effective disclosure. The current approach seeks to eliminate information asymmetry by providing a customer with all of the policy terms, on the assumption that they will read and understand them. In reality, providing a large document to a customer does not mean that will open it or read it, as has been demonstrated by consumer research.<sup>26</sup> In this regard, the current disclosure regime has failed to meet the policy objectives of the Wallis Inquiry.

Research demonstrates that customers are better assisted by receiving smaller chunks of information via methods that do not require high literacy.<sup>27</sup> This is particularly important in modern Australia, where adult literacy rates in English are low (47% of the Australian adult population have document literacy skills below a level required to meet the demands of our modern knowledge society)<sup>28</sup>. The current approach of providing a PDS in written format forms a significant barrier to effective disclosure.

#### Digital document delivery

Suncorp's customers are increasingly choosing to receive their disclosure documents via email. Regulation currently requires emails sent to customers to provide PDF versions of written disclosure documents, as if they had received printed copies. In some instances, as many as six attachments are required to be provided.

Ideally, insurers would be able to adopt the approach of enabling customers to access policy disclosure documents via a self-service portal, or via a similar centralised resource. This could assist consumers by:

- Allowing customers to access all their policy documents in one location;
- Allowing insurers to focus on policy coverage and offerings in their communications, rather than referring to the numerous attachments; and
- Reducing the size of emails sent to consumers, which in turn reduces the incidence of email delivery failures (which can occur if mailbox storage limits are exceeded).

This approach may also facilitate alternative electronic delivery methods, such as providing links via SMS or instant messaging services.

#### Searchability of documents provided to consumers

Further, provision of documents in digital form enables customers to search for relevant information. Suncorp endorses the following comments from the ICA's *Too Long; Didn't Read* report:

*"Insurers should explore and adopt new forms of electronic disclosure that enable information to be delivered in more relevant and personalised ways. This will be facilitated by appropriate law reform to enable electronic communication as the default method of providing insurance product disclosure."<sup>29</sup>*

Suncorp is already providing our customers with enhanced ability to search disclosure documents, using our Coverage Checker tool. This was released in July 2018, and uses IBM Watson technology to enable customers to search the AAMI Comprehensive Motor insurance PDS using natural language. This tool makes it easier for our customers to check their insurance coverage, without having to look at every page of the PDS. The Coverage

<sup>26</sup> See for example Finding 2 from the ICA's *Consumer Research on General Insurance Product Disclosures – Research findings report* (February 2017), page 18.

<sup>27</sup> For example, the June 2018 study by the University of Nottingham and Browne Jacobsen titled 'How clear are your policy wordings? An academic study into the readability of insurance policy wordings'. Available online at <https://www.brownejacobson.com/-/media/files/pdf-documents/insurance/bj%20eye%20tracking%20thought%20leadership%20report%20optimised>.

<sup>28</sup> Australian Bureau of Statistics, *Adult Literacy and Life Skills Survey*, 2006. Available online at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Chapter6102008>

<sup>29</sup> Insurance Council of Australia, *Too Long; Didn't Read – Enhancing Insurance Disclosure* (October 2015), page 46.

Checker tool has been used thousands of times by both our customers and our staff, and has received positive feedback.

While recognising that many Australians may still prefer to receive disclosure documents in hard copy, and that a significant number of Australians do not have access to internet or other technologies that would enable them to receive electronic documents, Suncorp considers that there would be significant benefits in the default position being to provide disclosure documents in electronic format (with customers having the option to indicate a preference for, or to request, documents in hard copy). The insurance industry (and other financial services sectors) have been calling for this to be implemented through amendments to the Electronic Transactions Regulations 2000 for more than a decade. To assist insurers in providing effective disclosure and make it easier to communicate with customers in engaging methods, the Government should remove any remaining impediments for the provision of electronic disclosure as the default option.

Alternatives to written disclosure could include depictions of policy terms and conditions through diagrams, video or animations, such as the animation used to depict key aspects of product coverage for *Essentials by AAI* (in addition to the written PDS). To make this animation more accessible for customers, we have also translated this animation into Mandarin, Hindi, Farsi and Arabic.

Further, the significant number of adult Australians with poor functional literacy means that alternatives to written disclosure must be available. In addition to the animation for *Essentials*, Suncorp is developing a prototype that shows the home building and home contents coverage and exclusions for our AAMI brand products via an interactive website, where customers can examine product coverage as well as accessing simple explanations of key insurance concepts (provided through both text and video). Given the current regulatory requirements, this tool would need to be offered in addition to a full PDS and KFS, however it enables customers to receive a visual depiction of product coverage and exclusions rather than having to read the detailed policy wording. While this program is still in development and not currently available to our customers, we would be happy to arrange a confidential demonstration of how this approach could assist consumers to receive effective disclosure.

Consumers may also be assisted by access to greater personalisation of information, particularly as this is enabled by developing technologies. For example, websites, apps or information portals may enable insurers to provide targeted advice on risk mitigation activities, educational material regarding different options and levels of cover, how excesses affect premiums. Artificial intelligence is already involved in underwriting in some insurance sectors, and may enable to provide improved disclosure to customers.

Greater personalisation of information may, however, raise concerns about the application of the financial advice regime, particularly if customers were seen to be receiving personal advice. Suncorp supports the need for a review of the interaction of the advice regime and how it may apply in such circumstances.

As mentioned above, relaxing legal requirements to focus on a principles-based approach to disclosure may also enable greater innovation in how product information is provided to customers, facilitating effective disclosure. Principles for this approach to disclosure should be developed through consultation with customers and the insurance industry.