Submission to the ACCC Northern Australia Insurance Inquiry First Interim Report

APRIL 2019

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ABN 66 145 290 124

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Cover image: 2019 Townsville floods aftermath

Executive Summary

The Northern Australia Insurance Inquiry first interim report is the latest and most comprehensive analysis of insurance in northern Australia that confirms the high risk of natural hazards is a key driver of insurance premiums. Only through committed action that builds resilience and reduces the increasing impact of severe weather events can we shift the dial and make insurance more affordable for communities in the region.

This submission is made on behalf of the Suncorp Group (Suncorp) in response to the first interim report (the report) of the Australian Competition and Consumer Commission (ACCC) Northern Australia Insurance Inquiry.

Suncorp acknowledges the ACCC's analysis to date. The consultation with local communities and stakeholders, as well as access to 10 years of insurer data, has put a spotlight on many of the drivers of insurance costs in the north, and what could be done to deliver better outcomes for consumers.

Suncorp especially welcomes the key finding that:

> *We have not seen evidence to suggest that insurers are taking an unreasonable approach to setting technical premiums in northern Australia. Instead, we have seen insurers invest in developing more sophisticated models which, combined with better access to data, is allowing them to make more accurate assessments of catastrophe risk.*[1]

Despite this finding, most of the recommendations and draft recommendations in the report focus on improving consumer choice and disclosure. While Suncorp supports efforts to improve consumer outcomes and understanding of risk, we note that disclosure-related reforms alone will not significantly improve the affordability and availability of insurance in northern Australia.

Rather, action by governments, communities and insurers must be taken now to address the increasing risk and impacts of natural disasters, and this should not wait until after the ACCC's inquiry is complete. Suncorp, alongside our global reinsurers, knows that weather events are today more volatile and severe, and that flooding is becoming an increasing risk in the region.

We have taken the opportunity to address the recommendations, draft recommendations, and focus areas raised in the report. The key aspects of our response are outlined below:

- **Mitigation is fundamental to achieving a sustainable reduction of premiums**: Suncorp believes the only way to sustainably reduce insurance premiums in northern Australia is to reduce the physical impact of natural disasters. To further detail our views on the role of mitigation, we have attached our updated *Protecting the North* policy proposal for the ACCC's consideration (please see *Attachment A*).

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[1] Australian Competition and Consumer Commission (2018), *Northern Australia Insurance Inquiry first interim report*, page v.

- **Disclosure reform that simplifies and improves understanding should help consumers make the best decisions for their individual circumstances, however, requiring even more information may be counter-productive**: Combining many of the disclosure-related recommendations will significantly lengthen the information already provided to consumers, without clear evidence that this will aid decision making. Suncorp notes that Treasury's consultation on 'Disclosure in General Insurance' addresses many of the disclosure-related recommendations in the report (our response to this is included as *Attachment B*).
- **Insurers must be able to deliver claims services that balance consumer outcomes and the sustainability of insurance**: Suncorp maintains an industry-leading claims capability and we consistently receive positive feedback from our customers regardless of the method of claims settlement. While we support improving consumer outcomes, Suncorp does not support consumers having a blanket right to choose the claims settlement method. This would create significant friction around the assessment of pre-existing damage and/or underinsurance. Furthermore, the extension of the Unfair Contract Terms (UCT) regime to insurance contracts could also have adverse impacts on affordable insurance, if this reform is poorly designed and implemented.
- **A comparison site or aggregator for home insurance is not the solution**: There are numerous examples of comparison sites and aggregators failing to deliver better long-term outcomes for consumers. They are poor at comparing insurance product features, with price becoming the key factor in determining which product is purchased - potentially leaving consumers with cover that falls short of their needs and expectations.
- **Improvements should be made to the transparency of remuneration for intermediaries**: By and large consumers (~90 per cent) purchase home and motor insurance directly from insurers, however brokers and other third parties, such as strata managers, do play a valuable role with their clients particularly when consumers are time poor, have unique needs, or are seeking advice to bundle their assets. Suncorp supports efforts that will increase transparency of the payments received by intermediaries in providing these services, as this will also improve consumer understanding of the actual cost of their insurance.
- **The tax burden in northern Australia should be reduced**: Those living in northern Australia are paying significantly more due to the 'double tax' on home insurance. Simply, the higher the premium, the more tax they must pay. In addition to the proposal to remove stamp duty, GST should also be removed on home insurance products to improve insurance affordability. In the absence of removing these taxes, governments should redirect this revenue to mitigation efforts in the region.

A summary of Suncorp's position on each of the recommendations and draft recommendations is included on the following pages and expanded upon (where relevant) throughout the submission. Our initial response to the ACCC's focus areas for 2019 is set out from page 30.

Summary of positions - Recommendations

Recommendation	Suncorp position
1. Abolish stamp duty on home, contents and strata insurance products	Suncorp **supports** the abolition of stamp duty on home, contents and strata insurance nationally. This recommendation should be extended to remove GST on these products.
2. Re-base stamp duty; use stamp duty revenue for affordability and mitigation	As an alternative, Suncorp **supports** investment of the revenue generated by these taxes into natural hazard mitigation initiatives that will, in turn, improve insurance affordability.
3. Insurers to report their brands and where they are writing new business	Suncorp **supports in-principle** providing regular reports to the Australian Securities and Investments Commission (ASIC) on the availability of home, contents and strata insurance products in northern Australia. Further consultation with ASIC is required to ensure the use, format, and frequency of these disclosures balances consumer outcomes with the cost of implementation and does not have an anti-competitive effect on the market.
4. Standardise definitions of prescribed events	Suncorp has addressed this recommendation as part of our response to Treasury's consultation on 'Disclosure in General Insurance', which is attached as *Attachment B*.
5. Review and mandate standard cover	Suncorp has addressed this recommendation as part of our response to Treasury's consultation on 'Disclosure in General insurance', which is attached as *Attachment B*.
6. Unfair contract term protections should apply to insurance	Suncorp **supports** extending Unfair Contract Term protections to insurance contracts so long as there are not adverse impacts on insurance affordability. We look forward to further consultation with Treasury on the design and implementation of this reform.
7. A link to *MoneySmart* should be on new quotes and renewal notices	Suncorp **supports** including a link to the Australian Government's *MoneySmart* website on renewal notices. We note a reference to *MoneySmart* is already included in the prescribed Key Facts Sheet (KFS) for building and contents polices.
8. Better understand information that falls within 'general financial advice'	Suncorp **supports** the Insurance Council of Australia (ICA) seeking to clarify the nature and type of information that constitutes 'general financial advice' in insurance. In particular, this must take into consideration the key aspects of consumer interaction that are unique to general insurance compared to other financial products to ensure insurers are able to make disclosures and assist consumers, while not being treated as providing personal financial product advice.
9. Disclose costs that count towards 'sum insured'	Suncorp **supports** the disclosure of the types of costs that contribute towards the sum insured where these are not provided for through a separate allowance under the policy. We believe it will help to improve consumer understanding of how their sum insured is calculated and what it may not cover.
10. Disclose the premium, sum insured and excess on a renewal notice	Suncorp **supports** the disclosure of the expiring policy's premium and sum insured on renewals. We note the revised General Insurance (GI) Code of Practice will require insurers to include these disclosures for home, contents and residential strata policies. Suncorp **does not support** including the expiring policy's excess(es) on renewals. Unlike the premium and sum insured, excesses usually stay the same from year to year. This disclosure would add to the complexity and length of renewal notices and would be of limited benefit to consumers (especially where the excess does not change).

Recommendation	Suncorp position
11. Extend the ban on conflicted remuneration to insurance brokers	Suncorp **notes** insurance broker remuneration has been addressed in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.
12. Better information for consumers lodging a claim	Suncorp **notes** that our current claims processes, as well as the revised GI Code of Practice, will ensure consumers are given the appropriate information at the most suitable point in the claim. We believe further prescriptive reform in this area is not necessary.
13. ASIC approval for the General Insurance Code of Practice	Suncorp **supports** the ICA seeking ASIC approval for the revised GI Code of Practice.
14. Public mitigation works and expected premium reductions	Suncorp **supports** greater investment in public mitigation works that have the potential to reduce the impact of natural disasters. We believe the insurance industry has a key role to play in advocating for these measures, with greater investment required now to prevent the region becoming even more vulnerable.
15. Building code changes to better protect interiors and contents	Suncorp **supports** a review of the National Construction Code to ensure homes built in northern Australia are properly protected from the impacts of natural disasters. Recent Suncorp-commissioned research has triggered improvements to this effect, strengthening requirements for roof fixings and flashings to reduce water entry into homes during storms.

Summary of positions – Draft Recommendations

Draft Recommendation	Suncorp position
1. Insurers should estimate a sum insured for customers	Suncorp **supports** insurers providing consumers with appropriate tools to assist them in estimating a sum insured. However, there are practical limitations for insurers who rely on a general advice model, which must be considered given that such assistance may be considered to be personal advice, and any change should not transfer liability for potential underinsurance to insurers.
2. Prominently publish PDSs and KFSs online with product offerings	Suncorp **supports** insurers making PDSs and KFSs available online and during the quote process. We also support a review of KFSs as outlined in our response to Treasury's consultation on 'Disclosure in General Insurance' (see At*tachment B*).
3. Disclose premium impacts of optional inclusions or exclusions	Suncorp **does not support** detailed disclosures of premium impacts of optional inclusions or exclusions on quotes and renewal documents. This proposal runs contrary to the efforts of 'effective' disclosure and encourages consumers to pick their cover based on price rather than need.
4. National home insurance comparison website	Suncorp **does not support** the implementation of a nation-wide home insurance comparison site. It would essentially act as an aggregator and in the long-term will have a negative impact on consumer outcomes and the home insurance market.
5. Renewal notices should give 28 days notice	Suncorp **does not support** changing the notice period requirement for renewal documents without evidence that the proposed timeframe will result in better consumer outcomes.

Draft Recommendation	Suncorp position
6. Disclosure where premium increases are capped	Suncorp **does not support** mandatory disclosure of premium capping. This measure would be anti-competitive and could result in negative outcomes for consumers and insurers.
7. Consider likely insurance costs before purchasing real estate	Suncorp **supports** the disclosure of likely insurance costs to potential property owners as this initiative could help to drive better consumer outcomes by preventing instances of underinsurance or non-insurance. However, further consultation is required to ensure the design and implementation of this disclosure balances consumer outcomes with the cost of implementation.
8. Requesting personal information held by insurers	Suncorp **notes** that consumers are already able to access the personal information insurers hold about them. We believe an additional insurance-specific requirement is unnecessary.
9. Strata managers to be remunerated by body corporate only	Suncorp **supports** changes to strata manager remuneration. This will increase transparency for body corporates around the actual cost of their strata insurance.
10. Clear disclosure of products considered and remuneration	Suncorp **supports** disclosure of the products considered, as well as the commissions received by product comparison websites. However, Suncorp **does not support** disclosure by brokers of a complete list of the products they will consider when making a recommendation.
11. Giving consumers more control over how claims are settled	Suncorp **does not support** changes to insurance contracts legislation to give consumers the right to choose whether a home insurance claim is settled through a cash settlement or repair/rebuild in all instances. We believe this could have negative consequences for both consumers and insurers.
12. Clearly stated mitigation discounts	Suncorp **supports in-principle** efforts to increase consumer understanding of the risks relevant to their property. However, Suncorp does not believe regulatory change is the appropriate method of reform; rather insurers should have flexibility around how they disclose mitigation discounts.
13. Information on mitigation works that could reduce premiums	Suncorp **supports in-principle** efforts to increase consumer understanding of natural peril risks and potential mitigation works that could reduce premiums. However, Suncorp does not believe regulatory change is the appropriate method of reform; rather insurers should have flexibility around how they provide information to consumers on potential mitigation options they may undertake.

About Suncorp

The Suncorp Group is a trusted provider of financial services and has been protecting Australians and their homes for more than 100 years.

Suncorp Group Limited (Suncorp) is a proud Queensland-based organisation, creating value for all our stakeholders since 1902.

Today we are a top-20 ASX-listed company with $99 billion in assets[2]. We employ approximately 13,300 people and have approximately 9.6 million customers across Australia and New Zealand [3]. Our strong portfolio of banking, insurance and superannuation solutions is available through our industry-leading brands, as well as those from our partners.

As the largest insurer in northern Australia we have developed deep connections with communities throughout the region. Suncorp has stood by those who live in northern Australia during some of their darkest moments – including Tropical Cyclone Larry in 2006, Tropical Cyclone Yasi and the Queensland floods of 2011, Tropical Cyclone Marcia in 2015 and, more recently, Tropical Cyclone Debbie in 2017 as well as the recent Townsville floods of 2019.

Suncorp argues for, and strives to deliver, what is in the best interests of consumers who live in northern Australia. Like others we want to see this amazing part of the world grow and prosper. However, we first need to ensure it is better protected from the impacts of natural hazards before we invest in further development and industry.

Our network of brands

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[2] As at 31 December 2018.
[3] As at 30 June 2018 and reported in Suncorp's 2017-18 Annual Review.

Mitigation must play a key role in any sustainable reduction of premiums

Insurance premiums are directly correlated to the impact and cost of natural disasters. Insurers must work with governments in advocating for community-level mitigation initiatives, as well as recognise activities individual homeowners take to build resilience and reduce their exposure to natural hazard risk.

Insurance premiums in northern Australia reflect the high risk of financial loss to insurers, but they are a symptom of a bigger problem.

The real issue is that natural disasters have become a part of life for northern Australia and this is compounded by the associated impacts on reinsurance and building costs – as identified in the report:

> *The high risk in northern Australia, and high costs of serving the area, are contributing to high and increasing premiums in the area.*[4]

Without action to address this risk, premiums will remain high and some insurers will choose not to offer insurance in this region.

The natural hazard risk faced by some parts of northern Australia was illustrated by the flooding that occurred in early 2019. Refer to Case Study 1.

Suncorp is a leading advocate for greater investment in disaster mitigation. We believe disaster mitigation is the only way to sustainably reduce insurance premiums in the north.

By reducing the risk of damage from natural disasters, mitigation can help to drive down insurance costs for homeowners, minimise adverse economic impacts on the broader community, and ultimately save lives.

An overview of key Suncorp-supported cyclone research published since our initial submission to the ACCC is included as Case Study 2.

Recommendation 14: Public mitigation works and expected premium reductions

Suncorp has a strong track record of supporting public mitigation projects.

Over the past decade we have worked with all levels of government to identify potential mitigation solutions and provide indicative expected premium changes (reductions). Our work in this area is ongoing and we agree with the ACCC's recommendation that insurers must continue to partner with governments to inform good investment and prioritise projects. Examples of Suncorp's current initiatives are included in Box 1.

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[4] Australian Competition and Consumer Commission (2018), *Northern Australia Insurance Inquiry first interim report*, page v.

Box 1: Suncorp's ongoing support for public mitigation works

Suncorp believes the insurance industry has a key role to play in advocating for public mitigation measures.

In addition to our work to support efforts to secure funding for the Roma and St George flood levees, Suncorp is currently supporting the following community-level mitigation initiatives:

- Suncorp has worked with the Rockhampton Regional Council on the planning and business case for the South Rockhampton Flood Levee Project. Our support has included attending community information days, undertaking hypothetical repricing scenarios to support Council with business case development, and public statements supporting the levee. We are pleased construction of the Rockhampton levee is expected to start in 2019.
- Suncorp is assisting Bundaberg Regional Council with their East Bundaberg Flood Levee. The levee forms part of Council's comprehensive flood mitigation plan for the city.
- Suncorp is a key supporter of Brisbane City Council's Flood Resilient Homes Program, which allows residents in selected areas to obtain a free assessment of their property's flood resilience, and recommendations to improve this. In eligible cases financial assistance is provided for property modifications and Suncorp also evaluates improvements and adjusts premiums accordingly.

Draft Recommendations 12 & 13: Clearly stated mitigation discounts and information on mitigation works that could reduce premiums

While community-level mitigation projects are important, individuals must also take steps to reduce their exposure to natural hazards.

Suncorp supports efforts to increase consumer understanding of the risks relevant to their property and potential mitigation solutions available to them. We have led ongoing investment and innovation in this area, particularly in relation to the key drivers of damage (and claims) during a cyclone.

Our Cyclone Resilience Benefit (CRB) recognises five categories of mitigation measures (cyclone preparation, roof improvements, window protection, roller door bracing, and sheds), based on research undertaken by the Cyclone Testing Station (CTS) at James Cook University (JCU) using Suncorp claims data from Tropical Cyclones Larry and Yasi.

Consumers in high-risk areas answer questions relating to each of these mitigation measures as part of obtaining a quote (for new customers) or by contacting us to update their details (for existing customers). The CRB premium reduction is clearly stated on quotes and each subsequent renewal notice. A recent case study of the CRB reductions being achieved by our customers is included in Box 2.

Suncorp has been clear in communications that customers may receive a premium reduction of up to 20%. This is achievable for a high-risk property, constructed before 1980, which undertakes all the mitigation measures. However, the premium reduction can vary significantly between houses that have the same mitigation measures installed - for example due to age, location and orientation on a block.

Since the ACCC's first public submission process, Suncorp has been pleased to see the Queensland Government apply the Suncorp-commissioned research and complement industry action with an Australian-first grants program to help eligible homeowners with the financial cost of retrofitting their homes. We understand the program has achieved high take-up rates with the $20 million budget to be exhausted in 2019 – suggesting that many north Queenslanders want to, and will invest in, home resilience if offered the right incentive mix between insurers and governments.

Based on our experience with the CRB, Suncorp does not support the proposed changes to the Insurance Contracts Regulations in relation to mandating the disclosure of mitigation discounts and expected premium reductions in quotes and renewals.

Our key concerns with this approach are:

- Insurers must have flexibility to continue to innovate and refine their products and features. For example, RACQ also used the CTS research to develop and implement its own discount for cyclone mitigation measures. We understand other insurers may choose to recognise other mitigation measures based on their own claims data and research, or not at all. This is an example of a competitive market in action, and this dynamic should be maintained.

- Including generic information on potential premium reductions for mitigation measures in quotes and renewal documentation has the potential to create unrealistic expectations amongst consumers. Any premium reduction estimate would need to include significant caveats around other factors that influence the actual amount that would be achieved, and as such would be inconsistent with the intent of effective disclosure.
- Information on mitigation measures that are recognised by the CRB is already available to consumers through the online quote process, on Suncorp's website, and upon request at any time. We therefore question whether also including information on potential savings for future mitigation work as part of quotes and renewal notices is necessary.
- Research and recognition of mitigation works is an emerging area. Mandating any list of measures has the risk of the prescribed measures becoming outdated or increasing the number of components required to be disclosed as items are added in the future.
- The national approach to insurance disclosure legislation means that it is not appropriate to prescribe disclosure of specific mitigation measures. For example, mandating the disclosure of cyclone mitigation measures would result in this information being included for consumers in southern states, where such information is of little (or no) relevance.

Furthermore, there is a risk that mandated mitigation disclosure based on properties with similar characteristics to a consumer's specific property might be considered to be personal advice. When providing this information insurers may need to have regard to the financial situation, objectives, and needs of the consumer. Insurers must not be held responsible for providing mandated information on mitigation measures specific to a consumer's property where such mitigation measures fail to have their intended effect on that property.

Box 2: Cyclone Resilience Benefit – premium reductions being achieved by homeowners

Suncorp is concerned the ACCC has downplayed the significance of the CRB by noting in the report that most recipients received a small premium reduction.

Suncorp's system provides reductions based on work undertaken and the property's risk. There are hundreds of customers who have received significant savings because they reported a range of improvements made to their home. The highest savings reported have been several hundred dollars.

As of November 2018, almost 3,000 homeowners who qualified for the highest level of Suncorp's CRB had upgraded their pre-1980s roofs and were, on average, saving more than $300 a year. Those receiving smaller premium reductions have generally done minor improvements to newer homes.

Top north Queensland savers (minimum 100 customers)	Highest level of Cyclone Resilience Benefit - average annual premium reduction
Ingham	$377
Townsville	$348
Proserpine and offshore islands	$324
Cairns	$310
Mackay	$299

Case study 1: North Queensland floods 2019 – a reminder of the natural hazard risk facing communities

Many communities in north Queensland face a dual threat of natural hazards from both cyclone and flooding.

This is illustrated in recent analysis from the ICA, which found that the federal electorate of Herbert (which incorporates Townsville) is the most flood-prone electorate in the nation.[5]

Leichardt (which covers Cairns), Dawson (which runs from Townsville's southern suburbs to Mackay) and Kennedy are other federal electorates in north Queensland which are included in the top 20 list.

The devastating floods that occurred in early 2019 were a reminder of this significant flood risk faced by those living in Townsville and surrounding parts of north Queensland.

In total, insurers have received more than 25,000 claims from this event, and it is expected to cost more than $1.04 billion in insurance losses alone.

As of 9 April 2019, Suncorp has received more than 7,800 home, contents, motor, strata, and commercial insurance claims – mostly from in and around Townsville.

The benefits of being a major insurer in north Queensland means Suncorp has been able to rapidly respond to ensure claims were assessed and repairs started as soon as possible.

In the first two months following the flooding, Suncorp was able to:

- arrange over 2,000 make safe repairs
- provide temporary accommodation for more than 1,000 customers and their families
- complete 96 per cent of home and contents claims assessments, 99 per cent of motor claims assessments, and 99 per cent of commercial claims assessments
- make $56 million of payments to customers for contents claims
- source more than 500 local trades, companies and suppliers to complement our panel builders and suppliers
- finalise 29 per cent of all home and contents claims.

Photo caption: Suncorp employees at a disaster recovery centre in Townsville

[5] Insurance Council of Australia (2019), *Which 20 federal electorates are Australia's most flood prone*? Available at: http://www.insurancecouncil.com.au/assets/media_release/2019/200319%20Which%2020%20federal%20electorates%20are%20Australias%20most%20flood-prone.pdf

Case study 2: Suncorp's ongoing commitment to better understanding cyclone impacts

In November 2018, in conjunction with IAG, we released a CTS research report covering water ingress during cyclones.

This study examined claims from Tropical Cyclones Marcia and Debbie and adds to previous CTS research into the key causes of cyclone damage in stand-alone dwellings. The key findings from this study are:

- Wind-driven water entry is a significant driver of cyclone claims costs, with 70 per cent of strata property claims examined involving damage caused by water ingress. This is despite most of the properties not suffering severe structural damage. Similar problems were found in the home claims sampled.
- Poor building design and construction plays a significant role in facilitating water entry. Wind-driven rain is most likely to enter through weepholes or gaps around window seals or doors, under missing or damaged flashings and gutters, or through eaves.
- The standards for windows and doors should be reviewed to ensure they are adequate for buildings in cyclone regions. The modern window and door examples tested leaked under cyclone-like conditions, despite being compliant with the current standard.
- It is important residents maintain their properties and carry out pre-cyclone season preparations. The maintenance that should be undertaken includes regular inspections and repairs of structural (e.g. roof screws) and non-structural elements (e.g. sealant around window sills).

Importantly, in the context of Recommendation 15 to review the National Construction Code, the research has already directly led to revisions for Australian Standards around minimum fixing requirements for flashings and roof attachments to reduce water entry from wind-driven rain.

Furthermore, the research unearthed a simple but effective method for homeowners to stop water coming in through windows and screen doors using just duct tape and plastic sheeting such as garbage bags. This has received media coverage and will continue to be promoted via our own channels.

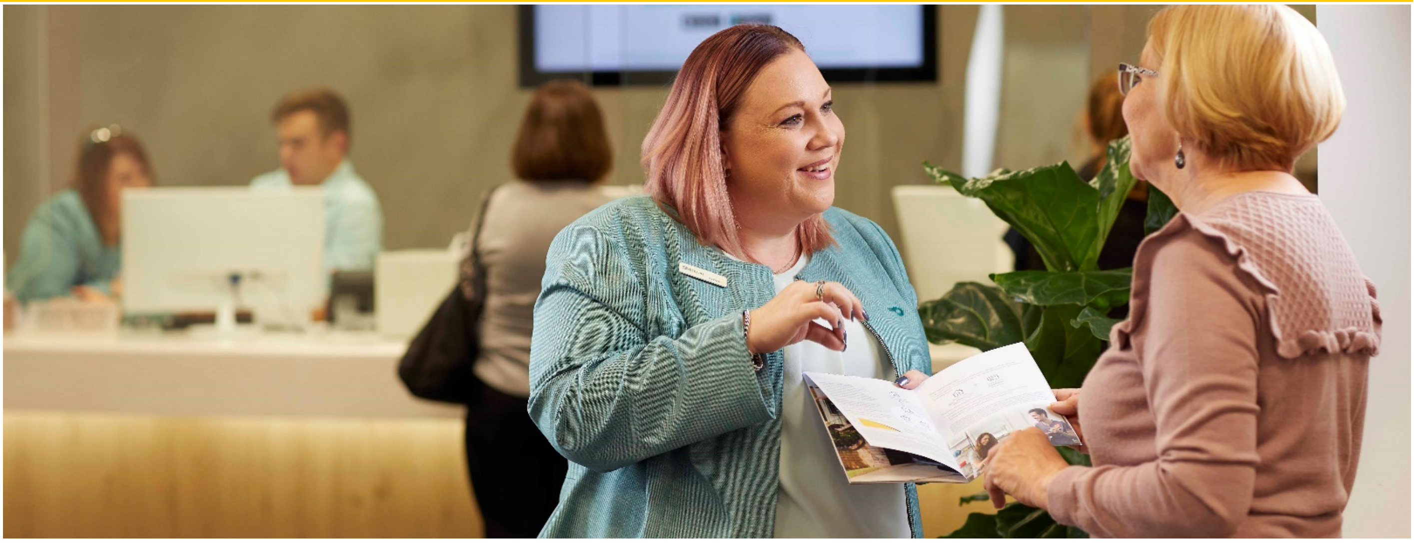
Importantly, we believe this research adds weight to changes in how we design and construct buildings in the north. The findings reinforce the need for Australian Standards to recognise the importance of all elements of the building envelope in mitigating losses.

There is also a clear opportunity for government to work with the insurance, design, construction, as well as window and door manufacturing industries, to promote the importance of secure cyclone-resistant measures in preventing water entry. This will result in less stress for residents during cyclones, lower damage costs, faster recovery, and help lower premiums.

In addition, Suncorp has also commissioned research to better understand what would best educate and motivate more homeowners to invest in the resilience of their own home. The behaviour change project is co-funded by the Queensland Government, through its Advance Queensland program. The findings have revealed:

- Residents of north Queensland know cyclones are a threat but underestimate the potential damage they can cause. Forty-five per cent of respondents believe damage from a category 3 or 4 cyclone would be 'very low' to 'somewhat low'.
- The more people talk about cyclone preparation, the more proactive they are when planning. In addition, home owners are more likely to install mitigation measures (i.e. cyclone shutters) if they know others who are also taking these steps.
- There are three distinct 'personas' (aware, doubtful and unaware) when it comes to understanding cyclone impacts and the importance of mitigation measures. This means that a 'one size fits all' approach will not cut through to every group. Rather, information must be tailored in order to reinforce or overcome perceptions of the damage that cyclones can cause, and the benefits of investing in cyclone mitigation.

This behavioural research will culminate in a prototype of an online tool that will guide people through their home, help them identify their own vulnerabilities, and tailor resilience solutions that will work for them.



Disclosure reforms must drive effective disclosure, not mandated disclosure

Any reforms to the disclosure regime must help consumers choose the right product for their needs, recognise the differences between insurer products and processes, and maintain the competitive dynamics of the home insurance market.

Many of the recommendations and draft recommendations in the report focus on improving disclosure and transparency for consumers when purchasing home, contents, and strata insurance.

While this is a commendable objective, the measures in totality have the potential to considerably increase the information already provided to consumers during the purchasing process, on policy documents, as well as renewal notices. Suncorp questions whether simply providing more information is in the best interests of consumers.

We know consumers want insurance products they can understand and will protect them when things go wrong. Suncorp supports efforts to improve disclosure that is proven to help improve consumer understanding of insurance, their risks, and the coverage that products provide.

We also invest significant time and resources into understanding the challenges consumers face, as well as key trends in purchasing behaviour. These insights are used to evolve and develop products and features to help our customers protect their assets.

Suncorp is aware of the challenges some consumers face in understanding the information required to be provided as part of the insurance purchasing process. We do not believe legislation and regulation, that prescribes more information be provided and in a specific format, is the way to increase consumer understanding of insurance products and services.

Recent research by Monash University confirmed there are issues with the effectiveness of mandated disclosures for home insurance products:

> *Overall, this study suggests that mandated disclosure information does not reliably assist consumers in making better purchase decisions. Nor does it appear to do a great deal to optimise their chances of obtaining suitable insurance cover.*[6]

Furthermore, Key Fact Sheets (KFSs) are an example of where disclosure reforms were intended to improve consumer understanding, but have not been effective:

> *…even in idealised circumstances where consumers are provided KFSs for making a simple choice between a good and a bad policy, there is no systematic increase in the number of consumers who will purchase the good product.*[7]

[6] Malbon, J. & Oppewal, H (2018), *"(In)effective disclosure: an experimental study of consumers purchasing home contents insurance."*, Monash Business School and Monash Faculty of Law, page 7. Available from: https://australiancentre.com.au/publication/ineffectivedisclosure/

[7] Malbon, J. & Oppewal, H (2018), *"(In)effective disclosure: an experimental study of consumers purchasing home contents insurance."*, Monash Business School and Monash Faculty of Law, page 7. Available from: https://australiancentre.com.au/publication/ineffectivedisclosure/

As a result, Suncorp believes any future reforms around disclosure must:

- provide consumers with confidence that they have the right information to make the best decisions for their individual circumstances
- be tested with consumers before implementation to ensure the information aids decision-making and can be easily understood - we are concerned many of the recommendations in the report do not appear to be based on consumer research
- set minimum benchmarks that recognise the differences between insurer processes, encourage the use of emerging technologies aside from print (i.e. digital), and allow insurers to innovate and make incremental improvements in response to consumer feedback.

Adopting these principles to guide improvements to the disclosure regime for general insurance products will enable insurers flexibility in how and what they communicate to consumers, ensuring the information provided is relevant, easy to understand, and useful.

Many of the disclosure-related recommendations and draft recommendations have been addressed as part of Suncorp's response to Treasury's consultation on 'Disclosure in General Insurance'. We refer the ACCC to our response to this consultation attached as *Attachment B*, as well as the specific responses below.

Draft Recommendation 1: Insurers should estimate a sum insured for customers

Suncorp agrees an appropriate sum insured amount is important to help prevent under-insurance. However, it is not practically feasible for insurers to consider all the potential variations between different properties. As a result, Suncorp currently provides a calculator to assist customers with determining a suitable sum insured when taking out a new home insurance policy.

The information which is provided or validated by the consumer through the quote process is used to calculate a default sum insured amount, as well as a range of values should the consumer wish to adjust the suggested sum insured value. This approach helps to prevent under-insurance by providing a minimum sum insured value, while allowing consumers to choose a suitable sum insured.

At renewal, Suncorp reviews the sum insured for each policy and applies increases to the sum insured to cover inflation, as well as changes advised to us by the customer during the previous policy term (i.e. improvements to the property). This revised sum insured is included in the renewal notice. Customers are asked to review the sum insured on each renewal and contact us to advise of anything we may not be aware of.

The exception to the approach outlined above is for complete replacement building policies, as the nomination of a sum insured by the consumer is not required for a complete replacement building policy.

Suncorp believes that the ACCC's recommendation to include an estimated sum insured on renewal notices could have several impacts that require careful consideration.

Suncorp is concerned that in providing an estimated sum insured, insurers may be engaging in personal advice which would be inconsistent with the general advice model. To provide an accurate estimate, insurers may need to consider the objectives, financial situation, and needs of consumers. This will be very difficult to do without actually seeing the property. As such insurers would be unable to discharge any 'best interests' duty in providing this personal financial product advice. A requirement to physically assess all properties prior to providing an insurance quote would introduce delays in providing insurance coverage and additional costs – which may be unreasonable from a consumer's perspective.

Furthermore, it is very likely that the ACCC's draft recommendation would result in the transfer of liability to insurers in the event that the sum insured chosen by the consumer is not enough to replace or complete repairs in the event of a claim. To ensure insurance remains accessible and timely, the consumer must remain responsible for determining the appropriate sum insured for their home particularly where (as mentioned above) an insurer does not have access to the property. Suncorp believes insurers should provide all necessary tools to assist consumers with making this decision (such as a sum insured calculator) but, ultimately, the responsibility for choosing a sum insured should rest with the consumer.

Draft Recommendation 3: Disclose premium impacts of optional inclusions and exclusions

Suncorp does not support the proposal for insurers to list premium costs or savings for each optional inclusion and exclusion. While we understand the intent, it assumes a very straightforward approach to pricing and product design and could also encourage consumers to make choices based on price rather than their needs.

The Suncorp Insurance Home and Contents product offers three coverage levels, five optional coverages, and 10 excess levels. We make these options clear in both the quote process as well as our renewal documentation, and customers can contact us to discuss how changes would potentially affect their premium.

If we were required to disclose the effect of each of these options on a premium, we would need to list 260 different price points. This would be highly confusing to consumers, adding a significant amount of information and increased complexity to quotes and renewal notices. Further, these 260 scenarios do not include the proposal to also disclose incremental changes in the sum insured. Box 3 illustrates the disclosures required for just one of the Suncorp Insurance Home and Contents policy coverage levels.

Box 3: Illustrating the disclosure of coverage and excess options

A Suncorp Insurance Combined Home and Contents policy has five optional inclusions and 10 excess levels for 'classic' coverage – resulting in 160 different price points that would need to be provided to the consumer (this would rise to 260 price points if 'extras' and 'advantages' coverage levels were also included). This excludes variations to sum insured levels which would further increase the number of price points.

The below example illustrates the over-supply of information using a hypothetical Suncorp Insurance Combined Home and Contents policy with 'classic' coverage. The premium impacts are illustrative only and not reflective of Suncorp's actual pricing approach.

COVERAGE OPTIONS	COVERAGE AND EXCESS COMBINATIONS AVAILABLE TO THE CONSUMER																	
Accidental Damage	No	No	No	No	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Saftey Net Protection	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No	No	No	No	Yes
Motor Burnout	No	No	No	No	No	Yes	Yes	Yes	Yes	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Pet Cover	No	No	No	Yes	Yes	No	No	Yes	Yes	No	No	Yes	Yes	No	No	Yes	Yes	Yes
Portable Valuables	No	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	Yes
EXCESS OPTIONS																		
$100	$2,588	$2,645	$2,799	$2,720	$2,874	$2,645	$2,799	$2,720	$2,874	$2,785	$2,939	$2,860	$3,014	$2,785	$2,939	$2,860	$3,014	$3,071
$150	$2,575	$2,632	$2,786	$2,707	$2,862	$2,632	$2,786	$2,707	$2,862	$2,772	$2,926	$2,847	$3,002	$2,772	$2,926	$2,847	$3,002	$3,058
$200	$2,550	$2,606	$2,761	$2,682	$2,836	$2,606	$2,761	$2,682	$2,836	$2,746	$2,901	$2,822	$2,976	$2,746	$2,901	$2,822	$2,976	$3,033
$300	$2,486	$2,543	$2,697	$2,618	$2,772	$2,543	$2,697	$2,618	$2,772	$2,683	$2,837	$2,758	$2,912	$2,683	$2,837	$2,758	$2,912	$2,969
$400	$2,405	$2,462	$2,617	$2,537	$2,692	$2,462	$2,617	$2,537	$2,692	$2,602	$2,756	$2,677	$2,832	$2,602	$2,756	$2,677	$2,832	$2,888
$600	$2,267	$2,324	$2,478	$2,399	$2,554	$2,324	$2,478	$2,399	$2,554	$2,464	$2,618	$2,539	$2,693	$2,464	$2,618	$2,539	$2,693	$2,750
$850	$2,176	$2,232	$2,387	$2,307	$2,462	$2,232	$2,387	$2,307	$2,462	$2,372	$2,527	$2,447	$2,602	$2,372	$2,527	$2,447	$2,602	$2,658
$1000	$2,090	$2,146	$2,301	$2,222	$2,376	$2,146	$2,301	$2,222	$2,376	$2,286	$2,441	$2,362	$2,516	$2,286	$2,441	$2,362	$2,516	$2,573
$2000	$1,845	$1,902	$2,056	$1,977	$2,132	$1,902	$2,056	$1,977	$2,132	$2,042	$2,196	$2,117	$2,271	$2,042	$2,196	$2,117	$2,271	$2,328
$5000	$1,657	$1,714	$1,868	$1,789	$1,944	$1,714	$1,868	$1,789	$1,944	$1,854	$2,008	$1,929	$2,084	$1,854	$2,008	$1,929	$2,084	$2,140

Draft Recommendation 5: Renewal notices should give 28 days notice

Suncorp does not support changing the mandated notice period requirement for renewals without evidence the proposed timeframe will result in better consumer outcomes and not contribute to non-insurance.

The current mandated disclosure period in the *Insurance Contracts Act 1984 (Cth)* of 14 days requires insurers to build tolerances into their processes to avoid non-compliance. For Suncorp, this means our renewal notices sent via mail typically arrive between 20 – 30 days before policy expiry – with some slight variances across brands. Any increase to the mandated timeframe will result in insurers adjusting their processes to provide similar buffers.

Suncorp is concerned there is no existing research into the impact this proposed change will have on consumers – including if providing renewal notices more than a month in advance will result in an increase in instances of non-insurance. We believe further research and/or consultation is required before any change is mandated.

Draft Recommendation 6: Disclosure where premium increases are capped

Suncorp does not support the proposal for insurers to disclose instances where premium increases have been capped.

Pricing is a key competitive advantage for insurers. As a result, insurers regularly review their risk models to factor in new internal (i.e. claims data) and external (i.e. flood mapping) data sources and adjust technical premiums to align to any changes.

Significant one-off increases in technical premiums for existing customers are often moderated by placing a limit on (or capping) the increase. This is illustrated in Box 4.

While changes to the technical premium are set (as well as capped) with a view beyond 12 months, forcing insurers to flag potential future premiums outside of the current contract period could have negative consequences for both consumers and insurers. These include:

- Increasing consumer shopping to a lower priced product in response to potential future premium increases, which may not have the same level of cover or cover they actually need (for example, purchasing a policy that does not have flood cover as it is cheaper even though their property has a high flood risk). We expect such a disclosure would have a similar effect in the intermediated market. If an insurer flags that a policy's premium has been capped, brokers may also use this information to seek an alternative policy for the next insurance period based on price only to avoid their client paying increased premiums.
- Eroding the competitive advantage of insurers with sophisticated modelling and pricing capabilities by providing all insurers with access to future pricing intentions across the market. We note in the interim report the ACCC states:

> *So while a requirement for an insurer to advise any existing customer of a capping arrangement will signal its pricing intentions to those customers, we do not consider this requirement will provide the insurer's competitors with any information that they would not otherwise be able to obtain from quote sampling.*[8]

Suncorp does not agree with the ACCC's statement on this issue. Quote sampling alone does not provide insurers with accurate data to determine future pricing intentions of other insurers given that quotes are based on a consumer's specific property characteristics and any discounts they may be entitled to receive (i.e. quotes are not purely based on premium modelling). By contrast, premium capping is purely developed by each insurer using confidential modelling techniques and data only available to that insurer. Insurers use this method to create their competitive advantage. If premium caps are disclosed, other insurers can use this data in addition to readily available quote information to determine with significant accuracy the future pricing intentions of their competitors. This is likely to erode competition in the market.

Draft recommendation 8: Requesting personal information held by insurers

The *Privacy Act 1988 (Cth)* already requires organisations, including insurers, to provide consumers with information on how they can obtain a copy of the information that an insurer holds about them, and contact details for doing so.

As a result, Suncorp questions whether an additional specific requirement in the Insurance Contracts Regulations for insurers is necessary.

Furthermore, any additional obligation for insurers to automatically advise consumers every time the personal information they hold on them changes would potentially provide consumers with information they may not read, would not improve consumer outcomes, and would also be costly to implement.

[8] Australian Competition and Consumer Commission (2018), *Northern Australia Insurance Inquiry first interim report*, page 177.

Box 4: Effect of capping on premiums

The following example using an AAMI Contents policy demonstrates the benefit of capping. It also highlights that pricing is a dynamic area, and the potential for this disclosure to create confusion can outweigh the benefits for consumers.

In this instance new flood modelling data for the property became available in 2018, which led to the property being reclassified from medium flood risk to high. The increase to the premium was capped, resulting in a 20 per cent increase in the retail premium between 2017 and 2018.

Further flood modelling data has been obtained, which will see the flood risk revised again. However, as the flood risk is still higher than 2017, a further capped increase will be applied. Even with the capped increases, the premium is 40 per cent higher than two years ago, which is a significant price signal and reflects the revised view of the flood risk for this property.

This example also illustrates the potential issues associated with having to disclose future premiums when insurer risk modelling can change as new risk data becomes available. In 2018 the customer could have moved to a different insurer, potentially with inferior coverage, with the expectation that their AAMI policy's premiums will continue to increase to reach this amount in future years.

Retail premium	2017	2018	2019
- With capping	$731.53	$913.78	$1,142.23
- Without capping	$731.53	$2,347.95	$1,434.93

Recommendation 8: Better understand information that falls within 'general financial advice'

Suncorp supports the ICA clarifying with ASIC the nature and type of information that constitutes 'general financial advice' in insurance. This clarification should consider:

- The unique nature of consumer interactions in general insurance compared to other financial products — which requires insurers to make disclosures and assist consumers — are currently not treated as providing personal financial product advice. For example, Suncorp would seek clarification that general insurers can discuss with individual consumers key questions relevant to a customer's decision to obtain a policy under a general advice model (e.g. questions about their sum insured or cover options relevant to their claim).
- Confirmation that other recommendations included in this report – such as the proposal to provide an estimated sum insured or provide a schedule of mitigation measures specific to a consumer's property – would not be considered as personal advice, given this would be inconsistent with the general advice model adopted by insurers.
- The Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry recommended the removal of the claims handling financial services exemption under the *Corporations Act 2001 (Cth)*. We note it is likely that some conversations by claims employees and other parties (i.e. builders) with consumers may be considered personal advice and this should be clarified by ASIC to give insurers and repair and supply chain partners certainty in this area.

Recommendation 10: Disclose the premium, sum insured and excess on a renewal notice

Suncorp believes insurers are already making changes that will improve disclosure in this area.

Suncorp is implementing disclosure on renewal notices of the expiring period's premium (including taxes and charges) and sum insured on home, contents and residential strata policies in preparation for compliance with the revised GI Code of Practice, as well as in response to NSW Emergency Services Levy requirements.

Suncorp also includes information on the front page of home, contents and residential strata renewal notices drawing attention to the fact that the excess(es) may have changed. We believe this is an appropriate disclosure given that excesses usually stay the same from year to year.

Delivering claims services that balance consumer outcomes and the sustainability of insurance

Enhancements to how claims are managed will be delivered through the revised GI Code of Practice. Suncorp cautions that reforms to provide a blanket right for consumers to choose the claims settlement method could have negative consequences for both consumers and insurers.

Suncorp understands our customers count on us to get them back in their homes as quickly as possible following a claim, so they can get on with their lives. This is one of the reasons why we invest significant resources in maintaining an industry-leading claims management capability – to make our customers' experience throughout their claim as seamless and easy as possible.

Suncorp customers already have a significant say in choosing how their claim is managed where appropriate (see Box 5). Importantly, our claims service consistently receives high customer satisfaction scores regardless of whether we rebuild or repair their home, or if they receive a cash settlement (see Box 6). This indicates Suncorp customers are happy with the choices available to them, and that they feel they have enough say over how their claim is managed.

Box 5: Suncorp home, contents and landlord claims (all brands)

In the 2017-18 financial year 57 per cent of home, contents and landlord claims were cash settled in full or in part.

- 'Cash Settled in Full' refers to claims where 95 per cent or greater of the claim cost was paid in cash.
- 'Cash Settled in Part' refers to claims where less than 95 per cent of the total claim cost was paid in cash (with the remainder settled through repair and/or replacement organised by Suncorp).

	FY2017 -18
Total Claims Lodged	188,194
Claims Cash Settled in Full	68,420
Claims Cash Settled in Full as a % of Total	36.4%
Claims Cash Settled in Part	39,432
Claims Cash Settled in Part as a % of Total	21%

The remaining non-cash settled claims do not include those we paid a vendor for services. Claims declined and withdrawn are also included in the total number.

Box 6: Suncorp 'voice of the customer' data

Suncorp does not see a significant variation in customer satisfaction scores between rebuild/repairs and cash settlements.

The table below shows the results from Suncorp's 'voice of the customer' satisfaction survey between December 2016 and February 2019. The survey is sent to our customers at the completion of their claim.

The majority of cash settled claims are represented in the first question, building repairs the second, and contents claims the third.

Question	Number of responses	Average score out of 10
Overall, how satisfied were you with the settlement (including cash and/or store credit) provided?	31,874	8.65
Overall, how satisfied were you with the repair service provided?	17,210	7.59
Overall, how satisfied were you with the replacement service provided?	11,189	8.33

Draft recommendation 11: Giving consumers more control over how claims are settled

Suncorp does not support the proposal raised in the report to provide a right via the *Insurance Contracts Act 1984 (Cth)* for consumers to choose how their home insurance claim is settled in all circumstances.

While our home insurance Product Disclosure Statements (PDSs) state that Suncorp will choose the way in which claims are settled as part of the claims process, customers are often provided with the option of accepting a cash settlement where appropriate.

To demonstrate suitable flexibility under current practices, Suncorp conducted a detailed review of 465 cash settled claims between March and August 2018. The results are illustrated in Box 7 and the key findings include:

- Cash settlement was requested by the customer in 57 per cent of the claims.
- In many cases Suncorp accepted a comparative (on either cost or scope) quote obtained by the customer from the supplier of their choice to determine the cash settlement amount.

There are, however, instances where insurers need to retain the ability to be able to choose the claims settlement approach, which the ACCC has acknowledged in the report:

> *Cash settlement amounts may also need to be adjusted to reflect work already undertaken, part of a claim is not accepted due to exclusions and other policy limits, and the overall sum insured…There may also be circumstances where a rebuild or repair is not practicable (for example, rebuilding in areas now rezoned or unsafe for development or wear and tear).*[9]

A further practical example of where the need for this flexibility is demonstrated is for repairs to a shared fence, where our customer is only liable for half the repair cost. In these circumstances this component of our customer's claim will usually be cash settled, so they can organise these repairs with their neighbour.

There are also risks of cash settlements for consumers, including:

- Exposure of consumers to rectification costs for poor workmanship, as repairs undertaken by non-panel builders or DIY work are not covered by lifetime guarantees provided by insurers.
- Delays to repairs and completion of claims, due to:
  - More time being required to allow consumers to seek advice as well as their own quotes and then comparison with insurer quotes to determine the cash settled amount or to proceed with repairs.

[9] Australian Competition and Customer Commission (2018), *Northern Australia Insurance Inquiry first interim report*, page 213.

– Instances where damage is uncovered mid-way through repairs or initial workmanship is of poor quality, which is not in scope or covered by an agreed cash settlement amount. The additional costs must be quantified and confirmed before being paid, further delaying repairs.

Any increases in costs for insurers as a result of longer claims duration may also impact on premiums, which could be expected to be more significant in northern Australia where premiums are already higher on average.

Box 7: Examining the key drivers of cash settlements

Suncorp conducted an in-depth review of 465 AAMI Home Insurance claims between March and August 2018 where the building component was cash settled in part or in full. Claims reviewed were selected at random.

Most of the claims were cash settled at the request of our customer and where it was appropriate to do so. In most of these instances a quote from our customer by their choice of builder/supplier was used to determine the amount.

The reasons for the cash settlement, as well as the method used to determine the amount, is detailed below.

<table>
<tr><th></th><th>Reason for cash settlement</th><th>Method used to determine amount</th></tr>
<tr><td rowspan="6">Cash settlement initiated by customer

264 of 465 claims (57%)</td><td rowspan="4">Requested by customer and accepted where appropriate - 211 of 264 (80%)</td><td>Cash settlement based on quote provided by customer - 125 of 211 (59%)</td></tr>
<tr><td>Cash settlement based on Suncorp panel quote - 71 of 211 (34%)</td></tr>
<tr><td>Cash settlement based on assessor negotiation - 11 of 211 (5%)</td></tr>
<tr><td>Cash settlement based on combination of quotes - 5 of 211 (2%)</td></tr>
<tr><td rowspan="2">Repair or replacement already completed by customer when claim lodged - 53 of 264 (20%)</td><td>Cash settlement based on customer invoice - 51 of 53 (96%)</td></tr>
<tr><td>Cash settlement based on Suncorp panel quote - 2 of 53 (4%)</td></tr>
<tr><td rowspan="9">Cash settlement initiated by Suncorp

201 of 465 claims (43%)</td><td>Policy limit reached - 26 of 201 (13%)</td><td></td></tr>
<tr><td>Sum insured reached - 5 of 201 (2%)</td><td></td></tr>
<tr><td rowspan="3">Maintenance issues with property - 56 of 201 (28%)</td><td>Cash settlement based on Suncorp panel quote - 50 of 56 (89%)</td></tr>
<tr><td>Cash settlement based on customer quote - 3 of 56 (5%)</td></tr>
<tr><td>Cash settlement based on combination of quotes - 3 of 56 (5%)</td></tr>
<tr><td rowspan="2">Building defects present - 17 of 201 (8%)</td><td>Cash settlement based on Suncorp panel quote - 16 of 17 (94%)</td></tr>
<tr><td>Cash settlement based on customer quote - 1 of 17 (6%)</td></tr>
<tr><td rowspan="2">Other reasons – 97 of 201 (48%)</td><td>Shared fence - 95 of 97 (98%)</td></tr>
<tr><td>Other - 2 of 97 (2%)</td></tr>
</table>

Recommendation 12: Better information for consumers lodging a claim

Suncorp believes our current claims processes, as well as the revised GI Code of Practice requirements, will ensure our customers are given the appropriate information at the most suitable point of their claim. We believe that further prescriptive reform in this area is not necessary.

It is best practice for insurers to keep consumers informed about their claim, both at the time of lodgement, as well as throughout the claims process. To this end the revised GI Code of Practice will require all insurers to provide consumers at claims lodgement with information relating to:

- their claims process
- any excess that will apply to the claim
- any waiting periods before payment is made or the repair process will start
- who they can contact about their claim.

At claims lodgement Suncorp's focus is to assess the loss or damage for validity, identify if emergency make safe repairs or temporary accommodation are required (for home policies), and advise customers of who they can contact about their claim. This reflects the fact many of our customers at this time are focused on the immediate steps of ensuring the property is safe and secure, obtaining immediate financial assistance, and the reassurance that their claim is likely to be accepted.

Information on how we will assess the claim, their right to obtain independent quotes from other suppliers, as well as how the claim will be settled are typically discussed with our customers at the appropriate stage as the claim progresses. Box 8 illustrates this approach in practice.

Furthermore, Suncorp customers can access internal and external dispute resolution processes (such as our Internal Dispute Resolution team and Customer Advocate, as well as the Australian Financial Complaints Authority (AFCA)) at any stage if they have concerns about their claim. We make this information available through our claims team members as well as through our policy and claims documentation.

Box 8: Example of when settlement options are discussed

A customer's house is severely damaged in a bushfire. They have an AAMI Home and Contents policy with the Complete Replacement Cover option.

The customer contacts us to lodge their claim. At this time, in addition to processing the claim to determine if it will be covered, Suncorp also arranges for temporary accommodation and makes a payment of emergency funds to the customer's account.

Suncorp will then arrange for an assessor, client manager, and panel builder to attend the property in person to confirm and assess the damage.

During this visit the client manager will take the time to discuss with the customer in person their entitlements, the next steps involved in the claims process, their options around settlement and what may be appropriate, as well as answer any questions they may have around the claim.

The assessor and the client manager remain in contact with our customer while they obtain their own advice and then determine the final settlement method. The duration of this stage can vary depending on a range of factors.

Recommendation 6: Unfair contract term protections should apply to insurance

Suncorp supports extending UCT protections to insurance contracts if this does not adversely impact insurance affordability.

Consumers tend to focus on the cost of premiums when purchasing insurance, more so than the scope of coverage.[10] It is important that the proposed UCT reform does not exacerbate the problem of underinsurance through an increased level of uncertainty for insurers that necessitates higher premiums or a reduction in coverage options.

[10] ANZ (2011), *Survey of Adult Financial Literacy in Australia*. Available at: http://www.anz.com/resources/f/9/f9fc9800493e8ac695c3d7fc8cff90cd/2011-Adult-Financial-Literacy-Full.pdf.pdf?

UCT have the potential to drive up costs and may *reduce* consumer choice. If insurers cannot rely on terms that fundamentally set the structure and scope of an insurance contract then there will be pressure on claims costs, affordability and ultimately our ability to continue offering insurance products. A balance must be struck so the proposed UCT reform does not undermine the strength of the industry that allows us all to transfer risk easily and efficiently.

Suncorp's submission to Treasury's 2018 consultation regarding this reform noted the following as potential disadvantages of the proposed model:

- Uncertainty for insurers in relation to risk coverage, particularly because some of the terms referred to as unfair (by consumer advocates, and in Treasury's consultation paper) are relied on by insurers to define and accept underwriting risk. These terms also create benefits for consumers in the form of reduced premiums (compared to if that term was not present).
- Extending the UCT regime to insurance contracts would likely lead to additional arguments from claimants that a term is unfair and cannot be relied on (usually to deny a claim). This would result in:
  - more resources being required for internal dispute resolution and external dispute resolution (e.g. AFCA) processes
  - insurers taking a conservative approach, with reduced product offerings
  - inflationary pressures on premiums due to the potential voiding of terms that contain claims costs.
- Increased compliance uncertainty around existing obligations, duties and remedies under the *Insurance Contracts Act 1984 (Cth).*

We look forward to further consultation with Treasury on the design and implementation of this reform.

Improving transparency of intermediary and other third-party payments

Payments and commissions can form a significant component of insurance premiums and their effect is amplified in properties in northern Australia, which have higher premiums due to higher natural hazard risks.

Intermediaries can play an important role in assisting consumers who require more than 'general advice' when sourcing and obtaining appropriate insurance cover.

Suncorp's insurance products are available via a network of brokers. We firmly believe that where a broker provides a valuable service to consumers, it is appropriate they receive payment for providing this service so long as it doesn't affect the quality of the advice they provide.

Recently there has been increased scrutiny around the payments received by insurance brokers as well as other third-parties. This has been the focus of several government inquiries and reports.

In principle, Suncorp considers measures that will improve consumer understanding of the actual cost of insurance are in best interests of consumers, intermediaries, as well as insurers.

Draft Recommendation 9: Strata managers to be remunerated by body corporate only

Suncorp supports the ACCC's proposal to prevent strata managers from accepting payments for arranging strata insurance except from body corporates.

Currently body corporates purchase strata insurance either directly from insurers, via their strata manager, or an insurance broker. A strata manager may also engage a broker to arrange the insurance.

Remuneration for strata managers in providing strata insurance is currently paid by the insurer (or broker) via commission. The commission is included in the overall strata insurance premium and can form a significant component of the total cost, especially where two levels of commissions are being paid.

By banning strata managers from receiving payment from any party other than a body corporate, it will result in body corporates having a clear understanding of what they pay for their strata manager to arrange their insurance. This is likely to:

- reduce the cost of strata insurance in the long term through downward pressure on fees received by strata managers
- improve the quality of advice provided by strata managers, who will need to justify payments by the body corporate for arranging the insurance
- promote additional competition between insurance providers through an increase in direct strata products.

It is important to consider that in the short-term fees payable by body corporates and scheme owners will likely increase as strata managers recoup some (or all) of the shortfall from previous income earned from commission. A sunset clause would provide strata managers with a transition period to adjust.

Draft Recommendation 10: Clear disclosure of products considered and remuneration

Suncorp has repeatedly noted the limitations of comparison sites and aggregators, which result in poor outcomes for consumers (see page 28). We support efforts to require comparison sites and aggregators to provide consumers with information on the products they consider, as well as any payments they receive from insurers.

Insurance brokers present consumers with a range of suitable options when providing advice on appropriate insurance cover and are sometimes faced with finding a solution for risks which are not suitable for mainstream products. As a result, Suncorp does not see additional value for consumers in compelling brokers to disclose a complete list of the options they will consider (via an approved product list or APL). This could also restrict the solutions available to consumers should new products become available which are not included in their approved products.

Recommendation 11: Extend the ban on conflicted remuneration to insurance brokers

Suncorp notes this topic has been addressed in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The tax burden in northern Australia should be reduced

Stamp duty on home, contents and strata insurance products should be abolished and the government should also consider removing GST on these products.

Suncorp has long called out that insurance taxes, duties and levies form a significant barrier against Australians purchasing affordable insurance cover and we support the ACCC's findings in this regard.

Recommendation 1: Abolish stamp duty on home, contents and strata insurance products

Stamp duty and GST combine to widen the gap between insurance premiums in the north and the rest of Australia, and exacerbate affordability pressures. The effect of this is illustrated in Box 7.

We agree with the ACCC's finding that:

> *The current method for levying stamp duty places a higher tax burden on someone living in a high-risk property in northern Australia, compared to someone living in other parts of the state or territory. We consider that this unfairly penalises those living in higher risk areas.*[11]

Northern Australians are also effectively paying double the dollar value of GST on their home insurance policies. For example, a home in Brisbane with a base premium of $1,500 will incur GST of $136.36, while a Townsville home with a $3,000 base premium will pay $272.72 in GST.

This is an unfair impost on northern Australians, because the more they pay for their risk, the more tax they must pay.

Box 7: Taxes and charges on home insurance policies in Queensland

In Queensland the insurance duty for class one and class two general insurance products is nine per cent of the premium paid (including GST).

The Queensland Government charges nine per cent duty on 110 per cent of the base premium, because duty is applied after GST has been added.

As a result, a $2,500 base premium becomes a retail premium of $2,997.50 once these charges are applied.

[11] Australian Competition and Consumer Commission (2018), *Northern Australia Insurance Inquiry first interim report*, page 88.

Recommendation 2: Re-base stamp duty; use stamp duty revenue for affordability and mitigation

In a scenario where stamp duties on home, and strata insurance products remain, Suncorp calls for governments to direct some of the collected levies and duties towards disaster mitigation.

Mitigation is a highly effective form of public investment which can reduce insurance premiums, prevent productivity losses, and reduce natural disaster recovery expenditure. Greater pre-disaster investment in mitigation has been shown to deliver significant economic benefits, both pre and post events, including:

- more efficient and sustainable premium reductions
- community and social benefits due to a lower level of damage and disruption after a cyclone
- strong economic benefits from the creation of a retrofit market, including job creation.

The Productivity Commission's Natural Disaster Funding Final Report found there is a significant over-investment in disaster recovery and under-investment in mitigation, with only three per cent of disaster funding being directed to prevention and mitigation activities.

As the largest insurer in north Queensland, Suncorp has seen firsthand the benefits of upgrading buildings to ensure they are better able to withstand the impacts of cyclones.

In 2006, Tropical Cyclone Larry caused significant damage to older properties in Innisfail, which were repaired or rebuilt subject to the current stronger building code. In 2011, when Tropical Cyclone Yasi impacted Innisfail, the areas rebuilt following Tropical Cyclone Larry saw average repair costs of $56,000. This was almost half of the $110,000 repair costs in nearby Tully and Cardwell that were largely built prior to current cyclone building standards.

Creating demand for mitigation can also be expected to have significant flow-on benefits for the broader economy. Urbis has identified that an incentive program creating a market for building retrofits is likely to boost innovation and drive down costs over time:

> *Experience curves for other products, notably solar panels, but also energy-efficiency innovations in the building sector more generally, demonstrate the potential for mitigation options to improve pricing outcomes over time. For example, capital expenses for solar are forecast to fall in Australia by over 40%, between 2010 and 2030, as the use of solar becomes more widespread (Hearps & McConnell, 2011).*[12]

[12] Urbis (2015), *Protecting the North: the benefits of cyclone mitigation*, piii.

	AAMI	Allianz	ANZ	Apia	CommInsure	NRMA	QBE	RACQ	Suncorp	Westpac	Youi
Key features ?											
Cyclone	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Storm	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Flood	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Storm Surge	✓	✗	✓	✓	✗	✓	✗	✓	✓	✓	✗
Other Actions of the Sea	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Safety net	✗	✗	✗	✗	✓	✗	✓	✓	○	✓	✗
Total replacement cover	○	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗

A national home insurance comparison site is not the solution

There are numerous examples of comparison sites and aggregators failing to deliver better long-term outcomes for consumers.

Draft Recommendation 4: National home insurance comparison website

Suncorp does not support the implementation of a national home insurance comparison site. We do not believe it is in the best interests of consumers or a viable home insurance industry. If pricing information were to also be included, the site would essentially act as a government-run aggregator for home insurance.

Suncorp has repeatedly noted the limitations of comparison sites and aggregators. Aggregator models have been linked to declining consumer outcomes, as experienced in the UK insurance market. This is because these platforms tend to be poor at comparing important product features and present insurance products as undifferentiated commodities.

As a result, price becomes the key determining feature for consumers. Price-focused decision making means consumers may ignore vital product features, like cover for perils and natural disasters, and can ultimately lead to underinsurance or, worse, non-coverage.[13] Furthermore, while an aggregator-led insurance industry may reduce premiums in the short term, the evidence from the UK is that any price reductions that result from an aggregator model are unsustainable over the long term (see Box 8).

Ultimately, a home insurance market dominated by an aggregator would encourage greater commoditisation of products as cheaper policies are rewarded with increased sales. This means there is no incentive for insurers to offer add-on benefits like lifetime repair guarantees, complete replacement cover, and multi-policy discounts.

The merits of comparison sites and aggregators in the Australian market have also been raised and explored in detail as part of other reviews. In 2014 an ACCC report found the simplification of information on comparator sites can obscure important differences between products and policies.[14] In 2012, ASIC raised concerns about the accuracy and reliability of comparison websites and warned operators they must comply with consumer protection laws to ensure they were not misleading customers.[15]

The Australian Prudential Regulation Authority (APRA) has also cautioned the Government against introducing an aggregator for general insurance saying:

> *… [while] the price of insurance is important…value can only be adequately assessed with an understanding of the key benefits and conditions of the product (e.g. coverage, limits on amount of cover, exclusions, excesses and service levels). If an aggregator focuses almost exclusively on the comparison of insurance premiums, consumers*

[13] For example, a super storm caused king tides to lash the NSW coast in June 2016, leaving several homes, particularly on Collaroy Beach, destroyed with parts of the buildings washed up on the beach.

[14] Australian Competition and Consumer Commission (2014), *The comparator website industry in Australia.* Available at: https://www.accc.gov.au/system/files/926_Comparator%20website%20industry%20in%20Australia%20report_FA.pdf

[15] Australian Securities and Investment Commission (2012), *12-304MR ASIC warns comparison website.* Available at: https://asic.gov.au/about-asic/news-centre/find-a-media-release/2012-releases/12-304mr-asic-warns-comparison-websites/

may not be aware of, let alone actively consider, differences in the terms and conditions of the policies they are comparing.[16]

We note a comparison website has already been implemented for home insurance in north Queensland, but Suncorp has not been provided with any information to suggest the service is popular or effective.

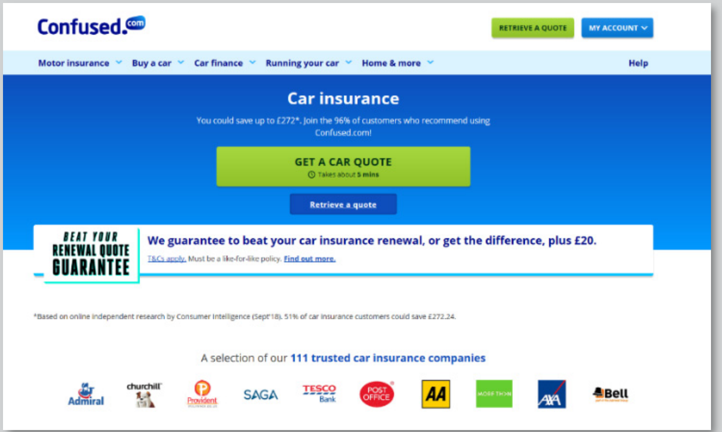
Finally, incorporating live quotes would require the body running the site to have access to insurer pricing systems. In addition to concerns around what it would cost for insurer systems to be integrated into such a site, as pricing can be a key competitive advantage for insurers, the risk of mis-use or unlawful access would need to be carefully managed.

Box 8: The effect of aggregators on the UK motor insurance market

In the UK, aggregators have played a significant role in the motor insurance market for over 15 years.

Premiums initially remained relatively flat following the introduction of the UK's first aggregator in 2002, however from 2007 to 2011 motor premiums in the UK almost doubled.

Premiums began to fall in 2012 but have since increased with average premiums reaching a record high of just under £500 in Q4 2017, before dropping slightly in 2018.



Source: Association of British Insurers (December 2018), *UK Insurance & Long-Term Savings Key Facts*. Available at: https://www.abi.org.uk/globalassets/files/publications/public/key-facts/key_facts_2018.pdf

[16] Australian Prudential Regulation Authority (2014), *Financial Systems Inquiry - Response to the Interim Report*, p17. Available at: https://www.apra.gov.au/sites/default/files/140829-APRA-FSI-Response_0.pdf

Assisting with 2019 focus areas

Suncorp will continue to assist the ACCC with the Northern Australia Insurance Inquiry. The following initial responses and case studies are provided to assist with the identified focus areas for 2019.

1. Measures to further improve insurance affordability and availability

Suncorp has attached our updated *Protecting the North* policy proposal (*Attachment A)* and would welcome the opportunity to discuss this in detail with representatives from the ACCC.

We suggest the ACCC examine the US National Flood Insurance Program (NFIP) to gain an understanding of the risks associated with government intervention to improve insurance availability without also addressing underlying risk. The Netherlands is an example of how governments can invest to minimise risk in a sustainable way. A short case study on each is included below.

Case study: Learnings from the US National Flood Insurance Program

The public policy failure of the NFIP in the US demonstrates that, without a strong price signal, moral hazard allows risks to continue to grow. It also highlights how difficult it is for governments to withdraw from a market once intervention occurs.

Floods are the most common and costly type of natural disaster in the US, yet most home insurance policies do not cover flooding. The NFIP was established to address this gap by providing affordable flood insurance to cover properties with significant flood risk. The program has grown from 1.4 million homes in 1978 to cover more than five million homes as at November 2018.[17]

The US has seen a significant increase in the costs from flooding events since the early 2000's and the NFIP has struggled to remain solvent as a result. Due to regulations, many homeowners receive a subsidised flood premium, which does not reflect the actual risk of flooding and does not cover the cost of recovery and rebuild. Furthermore, the program does not incentivise flood mitigation measures, meaning homes and communities are built back the way they were, to face the same flood risk into the future.

As a result, the US Government is now locked in as a significant provider of insurance at unsustainable prices. It is widely accepted that premiums must be increased. The *Biggert-Waters Act of 2012* attempted to address this, however voter backlash led to the repeal of many rate increases in 2014. For the program to be able to continue accepting claims, the US Government forgave $16 billion of its debt in 2017. However as of February 2018, the NFIP still owed $20.5 billion to the US Treasury.[18]

Image: Heavily damaged homes in the Ninth Ward of New Orleans following Hurricane Katrina

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17 https://www.fema.gov/policy-claim-statistics-flood-insurance (accessed on 11 March 2018)

18 FEMA (2018), *National Flood Insurance Program Report, Fiscal Year 2018, Third Quarter Volume 3.* Available from https://www.fema.gov/media-library-data/1537463902454-71f73463e7bfb9309e54d2ff647f6277/Q3_FINAL.PDF

Case study: Taking a lead from the Netherlands

Flood mitigation is embedded in government decision making in the Netherlands.

Nearly 60 per cent of the Netherlands land mass is vulnerable to flooding. This risk, as well as three significant flooding events in the 20th century, led to significant investment in flood mitigation measures including dams, natural sand dunes, and constructed barriers. This means the Netherlands is the world's 'best protected' delta.[19]

The Dutch recognise flood risk can be mitigated but not removed entirely. By addressing this the Government ensures flood risk is managed, and development minimises the potential of flooding in the future.

Importantly, they have adopted the approach 'make room for the river' — combining innovative architecture, urbanisation and landscape solutions to build with nature and live with water.

Through the Delta Programme, the Netherlands is now working to meet future safety needs, as well as ensure supplies of freshwater. New flood protection standards for flood defence systems have been embedded in law and the first improvements based on these standards are currently underway.[20] Importantly, this program doesn't just tackle flood disaster management, it also ensures risk is at the forefront of planning. Development and redevelopment of built-up areas is being approached with the aim of ensuring the built environment limits the impact of flooding.

Image: The Dutch village of Ooij, which is protected by mitigation measures to prevent flooding by the River Waal

2. Detailed case studies on sub-regions in northern Australia

Suncorp would welcome the opportunity to assist the ACCC with case studies, including analysis of potential impacts of mitigation measures on premiums.

3. Examination of premium adjustments

Suncorp does not believe premium adjustments are significantly distorting risk price signals and the operation of the insurance market in northern Australia. We would welcome the opportunity to assist the ACCC with its investigations in this area.

New business pricing for Suncorp's home and motor policies is slightly higher on average than existing policies. This would depend on brand, cover and state, but overall, new business policies are currently charged a premium that is slightly higher. From time to time, we carry out new business sales incentives, as previously outlined to the ACCC, which may make new business premiums fall below renewal prices.

The understanding of risk for a specific property is not static. Rather insurers regularly review their risk models and adjust premiums to reflect new internal (i.e. claims data) and external (i.e. flood mapping) data sources. Insurers will then adjust technical premiums over time to align to this changing view of risk, and often moderate significant one-off changes in technical premiums for existing customers using premium adjustments (capping) to avoid excessive affordability issues for consumers and reduce the likelihood of under- or non-insurance.

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[19] Dutch Delta Program (2011), *Delta Programme Factsheet.* Available from www.rijksoverheid.nl/deltaprogramma

[20] Dutch Delta Programme (2019), *Continuing the work on the delta: adapting the Netherlands to climate change in time.* Available from: https://english.deltacommissaris.nl/documents/publications/2018/09/18/dp2019-en-printversie

The effect of this adjustment may mean existing consumers pay less than if they were to obtain a new quote from their (or another) insurer, however the price signal is still maintained across both new business and renewals (see Box 4 on page 18).

Premiums are also a useful risk signal at a macro level with community resilience measures and government planning proven to be highly effective in lowering risk and premiums for consumers in high-risk areas. Previous policy changes to the building code, as well as mitigation projects (such as the levee built in Roma), have demonstrated the effective nature of these programs and the premium savings that result from a reduction in risk.

Adjustments to manage concentration risk is another factor that can influence the price of insurance and is an appropriate strategy for insurers to manage their portfolios. This is standard practice that insurers apply not just across Australia, but also globally. To comply with APRA prudential standards and limit the costs of reinsurance, it is common for insurers to actively manage their concentration risk via pricing, underwriting, and reinsurance arrangements. Suncorp's use of premium adjustments to manage concentration risks in northern Australia have lessened in recent years following the establishment of a quota share arrangement, which has transferred some concentration risk to reinsurers.

4. Identify and investigate barriers to expansion (or re-entry)

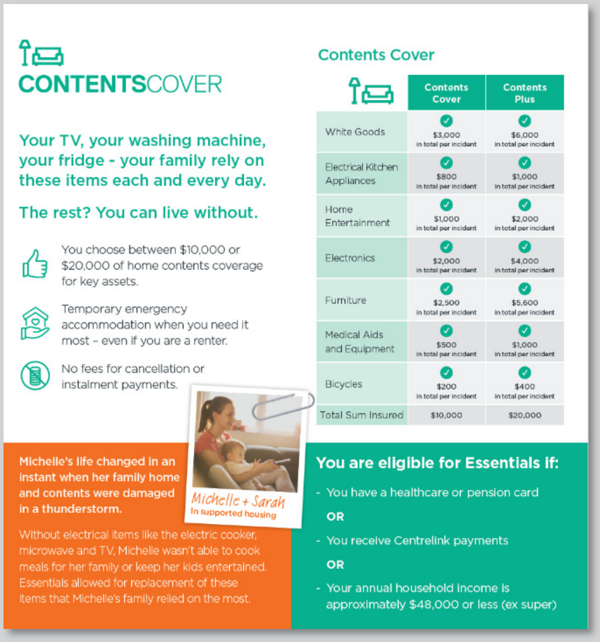
Suncorp notes the ACCC's interest in this area. We believe it is not unrealistic to expect that more insurers would consider offering insurance in northern Australia if the underlying risk of natural hazards is reduced.

5. Understanding non-insurance and how it may be addressed

Suncorp would welcome the opportunity to share with the ACCC insights and learnings from our award-winning *Essentials by AAI* insurance product for low-income earners. A short case study is included below.

Case study: *Essentials by AAI*

Suncorp partnered with Good Shepherd Microfinance to launch the award-winning *Essentials by AAI* product in 2015.



It was co-designed with an external advisory group consisting of financial counsellors, Legal Aid, the Financial Ombudsman Service, financial inclusion researchers, and consumer representatives.

The product provides better access to affordable, easy-to-understand products for low-income earners. Policyholders can 'mix and match' cover for contents and/or cars under the one simplified low-cost product, with cover options of up to $20,000 for contents and up to $5,000 for cars.

No standard excess is payable for the first two claims under the policy. *Essentials by AAI* also provides coverage for legal liability of up to $20 million dollars, to shield low-income earners from costly legal action. In an insurance first, the product allows for payment via Centrepay and fortnightly direct debits.

Essentials by AAI is available across Australia, and currently we have more than 3,000 policies in force. Approximately 70 per cent of customers pay fortnightly at no additional cost, including 30 per cent who pay using Centrepay.

When setting up Centrepay, Centrelink was very supportive, allowing Suncorp to accept Centrepay details without paperwork as the formation of the payment contract is verbal.

Suncorp has applied to Centrelink and various government representatives over time for an exemption for the Centrelink transaction fees, however to date there has been no allowance made. As *Essentials by AAI* is a low-cost product, Suncorp currently absorbs these fees, which impacts on our ability to invest in and scale the product.

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