



Committee Secretary
Senate Economics References Committee
Parliament House
Canberra ACT 2600

10 February 2017

Attn: Senate Economics References Committee
Submission: Inquiry into Australia's general insurance industry

Introduction

iSelect Limited (ABN 48 124 302 932) welcomes the opportunity to make this submission to the Senate Economics References Committee's Inquiry into Australia's general insurance industry.

iSelect is a successful commercial entity that has been founded on the use of technology to assist consumers in their quest to purchase financial products. iSelect has a customer base that extends across the breadth of the Australian population, and is a company that operates across highly regulated business segments, including general insurance. The Company prides itself not only on the quality of its technical capability in the comparison sector, but also on the service that it provides to its customers throughout their journey to purchase. This means iSelect is very well placed to provide insight and commentary into the proposal to establish a Government-run independent comparison site and the impact this would have on the general insurance industry.

Background – iSelect: Australia's Life Admin Store™

iSelect is a publicly-listed Australian company founded in 2000. It originally commenced operations as a comparison website enabling Australians to navigate the hugely complex private health insurance market, and to assist them in choosing and buying an appropriate private health insurance policy. Since its founding, iSelect has grown its offering into ten business segments spanning insurance, energy, telecommunications and personal finance products. These product segments collectively fall within what we describe as a customer's "life admin®".

As Australia's Life Admin Store™, iSelect provides a valuable service to millions of Australians who seek expert advice each year on some of life's most important purchase decisions. In the year ending June 2016, our website received nine million unique visits, we performed over six million comparisons and sold 400,000 life admin® products to Australians.

The mission of the company was at the outset, and remains today, to help consumers make complex purchase decisions with confidence and connect them with the 'right' product for their individual needs. We aim to do this while also delivering a truly effortless customer experience. iSelect offers consumers the choice to purchase over 12,500 products from our partner group of more than 100 companies and 150 different brands.

Comparing online is only the first step in iSelect's personalised comparison and expert advisory service. Around 90% of our customers choose to purchase products after speaking over the phone with one of our 500 highly-trained expert advisers. In a number of our product segments, including

general insurance, iSelect operates not simply as a comparison website but rather as a digitally-enabled broker with qualified advisers providing expert advice to customers.

Setting up an online 'independent' general insurance comparison service – value for money?

We do not believe that setting up a government-run online independent comparison service would be able to meet the purported aims of such a service while delivering 'value-for-money' for the taxpayer.

The set up costs associated with establishing such a site and the ongoing maintenance expenses would be substantial. Reported estimates of the setup costs in the World Bank study¹ on public sector-operated price comparison websites vary between the hundreds of thousands of dollars into the many millions. iSelect's own experience in operating a comparison site for 17 years across multiple industries would suggest that the latter, larger estimate is the more likely, and still potentially conservative. iSelect has over many years invested tens of millions of dollars into research and development, technology, infrastructure and architecture, and this investment is ongoing as we ensure we keep pace with the ever-changing and more demanding customer expectations of online experiences.

A website which simply provides comparison data on different providers' policies without a complimentary advisory service will, we believe, focus the consumer back to the one element of the product which they believe they understand best: price.

While on the face of it providing consumers with the ability to perform convenient price-comparisons on the products they are researching could appear to offer the benefits of transparency and price discovery, in reality we believe this would provide minimal benefit for consumers because general insurance policies are very complex financial products. Different providers' policies have different features, characteristics, inclusions and exclusions and the terminology used to describe the features differs between providers' products (see commentary below on PDSs and disclosure). Focussing consumers purely on price will actually limit their ability to make informed decisions about these complex products. The World Bank study¹ advises:

"...there are inherent limitations to price-comparison websites. Price comparisons are most useful for comparing standardized, commoditized products and are less appropriate for sophisticated products."

We maintain that general insurance products are sophisticated, complex financial products and that consumers need to prioritise value over price alone when choosing these products.

This was reinforced by a 2014 iSelect-commissioned quantitative consumer research study by consultants Brandhook that reported consumers' stated preferences on 'what is important' to them when choosing motor insurance. 'Price', although undoubtedly important to consumers, was only part of the decision making process, where consumers nominated 'Customer Service' and 'Provider's Reputation' alongside price in most of the customer segments.

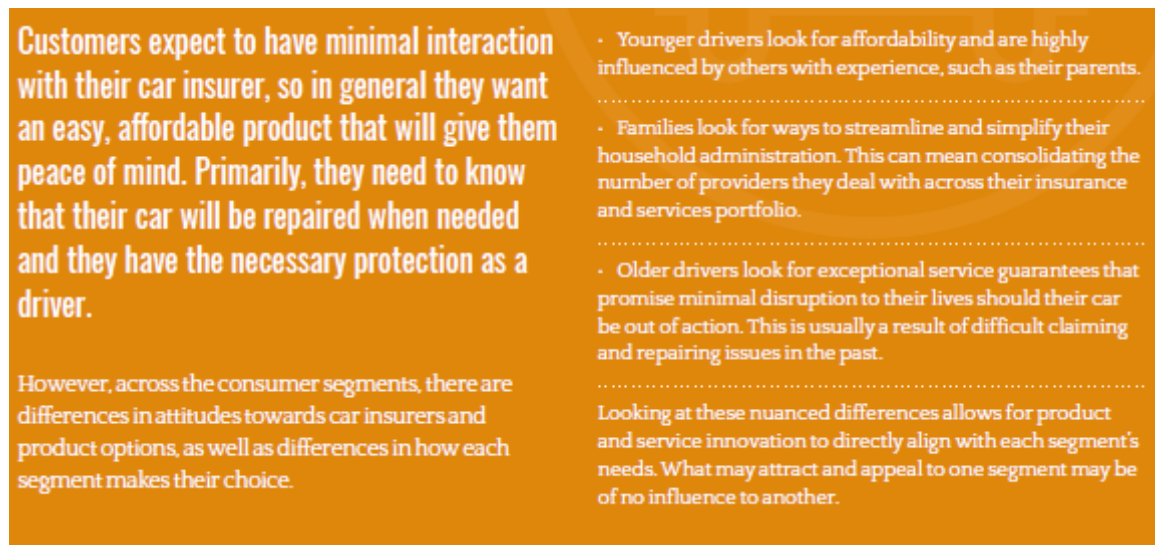
In addition, features such as 'lifetime guarantee on repairs', 'variable excess', 'flexible payment options', 'new car replacement', and 'nominated repairer' were also listed as very important for consumers, all with ratings of greater than 5 on a 1-9 scale. (Refer Appendix 1 for detailed results table.) Focusing on price alone is just too simplistic for these products.

Further evidence to this was provided by a qualitative research study also conducted by Brandhook in 2015 on the motor insurance market in Australia. This study reported that the only customer segment that focussed primarily on price were the younger drivers. The results summarised below by Brandhook bear this out. While the younger drivers stated they are concerned by affordability,

¹ Public Sector-operated Price-comparison Websites: Case Studies and Good Practices, World Bank, 2013

the remainder of the customer segments were looking for service and simplicity rather than simply the best price.

Figure 1: Extract from Brandhook Research²: Overview of motor insurance customer opinions



Consumers are looking for more, not less, advice

iSelect's experience shows that consumers crave information and advice, not data. They want information provided in a clear and easy-to-understand format, and predominantly prefer it to be delivered in plain English by a person, rather than on a website alone.

This is borne out by the fact that the overwhelming majority of iSelect's general insurance sales are made via our call-assisted contact centre. For example, in our car insurance segment in 2016, iSelect made almost 51,000 policy sales. The proportion of online-only sales was less than 20% compared with call-assisted sales of over 80%. This trend has been increasing over the past three years as more consumers prefer to speak with a highly trained and skilled adviser about what is a complex financial purchase decision.

Role for a Government 'information' website?

iSelect is a supporter of anything that would provide increased information to consumers about complex financial products. While we do not support a Government-run comparison site for the reasons outlined herein, we do see the potential benefit for an information website or other service designed to help inform the public about these products.

Will a government-run independent comparison website meet its aims?

It has been reported that the aim of a government-run comparison website is to provide transparency across the industry sector and that this transparency will put pressure on providers by increasing competition, thus keeping prices down.

It is our contention that there is no evidentiary basis for the claim that such a site will assist in making the market more competitive or reduce costs for consumers. To spend a substantial amount of public funds, likely millions of dollars, developing and maintaining the website without clear prior evidence of the benefits provided would appear to be counter to the public interest.

As noted above, iSelect began its business in private health insurance and we have substantial experience in this sector. The government-run comparison site *privatehealth.gov.au* has been

² Source: Brandhook quantitative research – *Customer driven solutions for growth*, 2015, motor insurance

operating in its current form for almost seven years, mandatorily listing all private health insurance products that are currently available from all providers.

Privatehealth.gov.au arguably provides transparency to consumers in the products that are for sale and pricing of those products, and has done since its inception. While it is a useful tool for information provision about the policies on offer, it does little to help customers choose between the benefits and features of individual products.

Since the establishment *privatehealth.gov.au*, health insurance premiums have continued to rise well above growth in wages and CPI. It is evident that in the private health insurance sector, transparency has not had the effect of maintaining or reducing the cost of private health insurance policies.

As in the private health insurance market, we believe there are a number of factors other than a lack of transparency which are detrimentally affecting the general insurance market.

Concentration of general insurance providers

The significant concentration in the Australian market of the two major players - Suncorp and IAG - with around 70% market share between them, would appear to be substantially reducing competition in the general insurance market. This lack of true competition is masked from consumers as the major companies have maintained a plethora of brands (see Figure 2) retained after acquiring a number of smaller competitors. These multiple brands give consumers the false impression that the marketplace is highly competitive.

In addition, there are substantial barriers to entry for new entrants to the industry. The relatively small size of the Australian market, on a global basis, compared with the costs of regulation and establishment, have proven to be a high burden for new or existing local and offshore insurers.

iSelect has been informed by a major UK insurer that the initial capital required (upwards of A\$25 million) and the time commitment (greater than 12 months for licence application and business establishment in Australia to set up sales and marketing, distribution, claim systems, car repairer networks etc.) made the proposition marginal at best on risk-weighted basis.

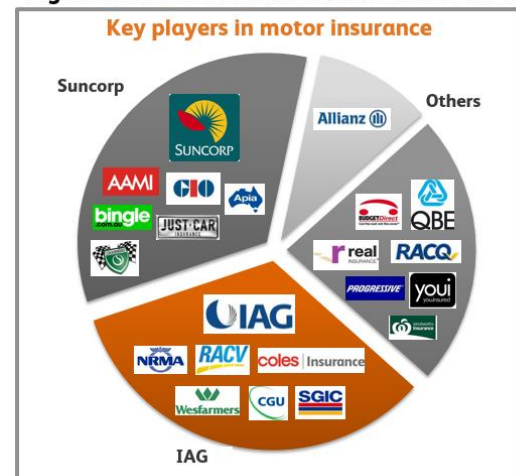
We believe that the Government should investigate measures to reduce these barriers to entry for new entrants as there is little doubt that competition would be enhanced as a result.

Market concentration restricting distribution

The two major insurers do not offer their general insurance product on any publicly available commercial comparison sites, including iSelect. This has the effect of reducing consumers' ability to access and compare the products easily, requiring consumers to personally undertake a laborious process to perform such a comparison.

We believe that rather than mandating insurers provide their details to a costly Government-run comparison website, consumers would be better served by the Government mandating "large" insurers (for example insurers with a market share above a nominated percentage in a sector) be required to participate in the commercial comparison space, for example as a licence condition.

Figure 2: Australian Motor Insurance Market



Source: iSelect internal

Transparency lacking in the industry

As stated above, we do not believe that transparency alone will increase competition. That said, there is little doubt that the complexity inherent in general insurance disclosure documents such as PDSs is creating an environment lacking in transparency and increasing customer confusion. This confusion makes the purchase journey for consumers, from initial research through to ultimate purchase, unnecessarily arduous and time consuming. The reality is that a large number of customers do not read the 'fine print' and thus are arguably making these important purchasing decisions without being in full knowledge of the terms.

PDSs are jargon-filled, excessively complex documents which make a like-for-like comparison between product offerings difficult. Too often, this complexity results in a customer basing their decision on price alone, which can result in insufficient or inappropriate cover. We propose the process could be streamlined by regulating standard definitions of product inclusions in plain English.

Conclusion

In summary, iSelect believes that while mandating general insurers to list their products on comparator services has some merit, establishing a government-run independent general insurance comparison site to host this information would not provide 'value-for-money' for Australian consumers.

There are many commercially operated comparison services in operation in Australia, including iSelect. If the range of products offered on existing sites were comprehensive this would provide transparency in the market, allow consumers to choose the right features and benefits of the products they are buying (including price), and provide greater competition between general insurance providers.

iSelect's experience has shown that consumers want more than data on a website. They desire the assistance and service provided by a trained and qualified adviser who will explain product features in plain English, narrow down the choices in the market and match their own needs with the 'right' product. Crucially, expert advisers can help customers to understand that the most suitable product may not necessarily be one with the lowest cost.

There are many qualified insurance brokers and financial planners in Australia who are currently providing this essential service. iSelect is proud to be a digitally-enabled broker included in this group.

As outlined herein, we believe the Government has a number of levers at its disposal that can influence the operation of the general insurance market in Australia and would result in both increased transparency and competition.

Further Discussion

iSelect thanks the Committee for its consideration of our submission and welcomes the opportunity to discuss these issues and any further questions you may have.

Kind regards,

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APPENDIX 1

“Car Insurance Attribute Importance” (listed by iSelect customer segment)

	YOUNG AND FREE INDEPENDENTS	FUTURE FOCUSED INDEPENDENTS	PROSPEROUS YOUNG FAMILIES	YOUNG AUSSIE FAMILIES	ESTABLISHED PROSPEROUS FAMILIES	ESTABLISHED AUSSIE FAMILIES	MATURE MAXIMISERS
1	Price (7.8)	Price (7.5)	Price (7.7)	Price (7.8)	Price (7.7)	Price (7.8)	Customer service (7.9)
2	Customer service (7.3)	Customer service (7.0)	Lifetime guarantee on repairs (7.4)	Customer service (7.3)	Provider's reputation (7.5)	Lifetime guarantee on repairs (7.5)	Price (7.8)
3	Provider's reputation (7.0)	Provider's reputation (7.0)	Provider's reputation (7.3)	Provider's reputation (7.0)	Customer service (7.5)	Customer service (7.4)	Provider's reputation (7.8)
4	Variable excess to reduce premium (6.8)	Lifetime guarantee on repairs (6.8)	Customer service (7.3)	New car replacement (6.9)	Lifetime guarantee on repairs (7.2)	New car replacement (7.4)	Lifetime guarantee on repairs (7.3)
5	Emergency transport & accommodation (6.7)	Variable excess to reduce premium (6.5)	Nominate preferred repairer (6.9)	Variable excess to reduce premium (6.8)	New car replacement (7.2)	Provider's reputation (7.3)	Emergency transport & accommodation (7.0)
6	New car replacement (6.5)	New car replacement (6.4)	Emergency transport & accommodation (6.9)	Lifetime guarantee on repairs (6.8)	Variable excess to reduce premium (7.1)	Variable excess to reduce premium (7.1)	Variable excess to reduce premium (7.0)
7	Lifetime guarantee on repairs (6.4)	Nominate preferred repairer (6.2)	Variable excess to reduce premium (6.6)	Emergency transport & accommodation (6.5)	Nominate preferred repairer (6.9)	Emergency transport & accommodation (6.8)	New car replacement (7.0)
8	Pay by the month option (6.2)	Emergency transport & accommodation (5.9)	New car replacement (6.5)	Nominate preferred repairer (6.3)	Emergency transport & accommodation (6.6)	Nominate preferred repairer (6.7)	Nominate preferred repairer (6.5)
9	Nominate preferred repairer (5.8)	Pay by the month option (5.4)	Pay by the month option (6.4)	Pay by the month option (5.2)	Pay by the month option (6.2)	Pay by the month option (6.2)	Pay by the month option (5.2)

Q.: How important are each of the following when it comes to car insurance?
1 = Not at all important 9 = Extremely Important



Source: Brandhook 2014 Quantitative consumer research study