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Submission to the Senate Economic References Committee on matters related to Australia's general insurance industry

Introduction

I have written this submission on my own behalf, but my work as a journalist specialising in cost of living issues has given me a useful understanding of the issue. To be absolutely clear, the arguments and views expressed here are not those of my employer, News Corp Australia.

In my opinion there is an urgent need to assist consumers in their efforts to find good-value insurance cover for their homes and motor vehicles. This submission does not address strata insurance.

The cost of some forms of cover has risen by as much as 154 per cent over the past decade – more than three times the pace of wages.

A household attempting to contain its insurance costs would have to invest considerable time and effort to size up competing offers. It would be nice if they could simply rely on private-sector comparison services, but they can't. None of these services sizes up the whole market; incredibly, some mainly peddle insurance products issued by related companies.

So premiums are rising – very quickly in some cases – and it's not easy to shop around for a better deal. What's the answer?

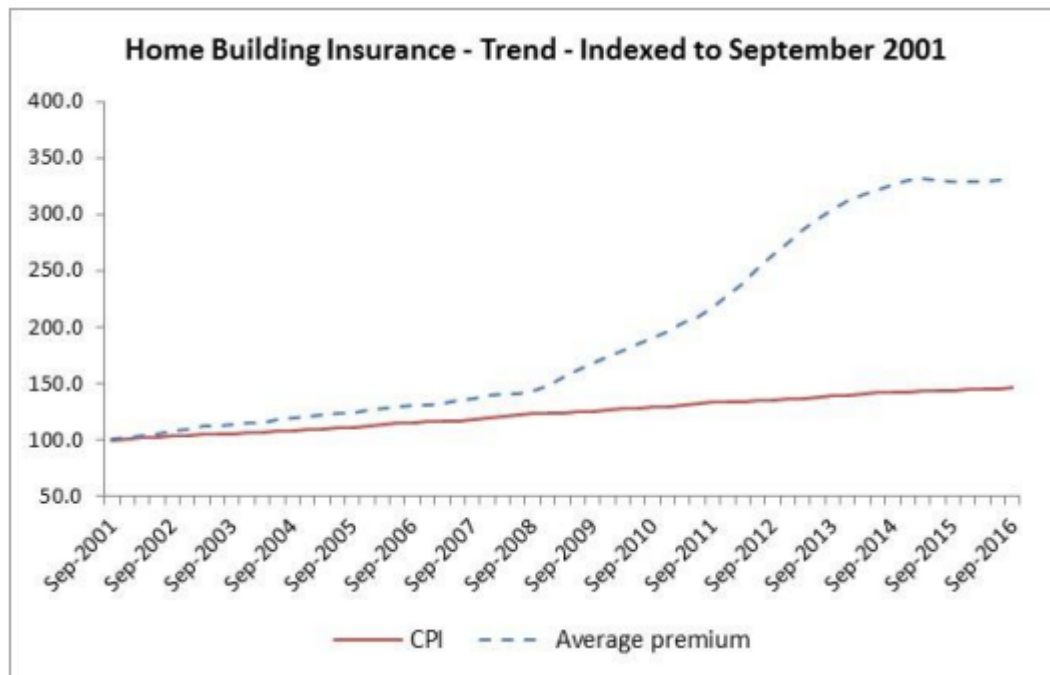
I believe there is a cost-effective solution within grasp. For a small sum (likely less than \$2 million) a public sector-run general insurance comparison service could be set up. The one the government operates for private health insurance is a good template. The ongoing running costs could be expected to be a much smaller amount than the set-up cost.

I would hope such a comparator could be brought into being in co-operation with general insurers. This would be the simplest solution because there would be no need for law change to force insurers to provide the relevant information. If the industry was to resist, one would have to wonder why. Surely insurers would want their customers to get value for money.

I will now address the individual terms of reference.

a. the increase in the cost of home, strata and car insurance cover over the past decade in comparison to wage growth over the same period

Using figures from the Insurance Council of Australia website, I have calculated that building insurance premiums have increased by an average of 154 per cent over the past decade. It is not known what the average premium is. The industry keeps this information to itself. However, it can be said that a building policy costing \$1000 today was less than \$400 in 2006.



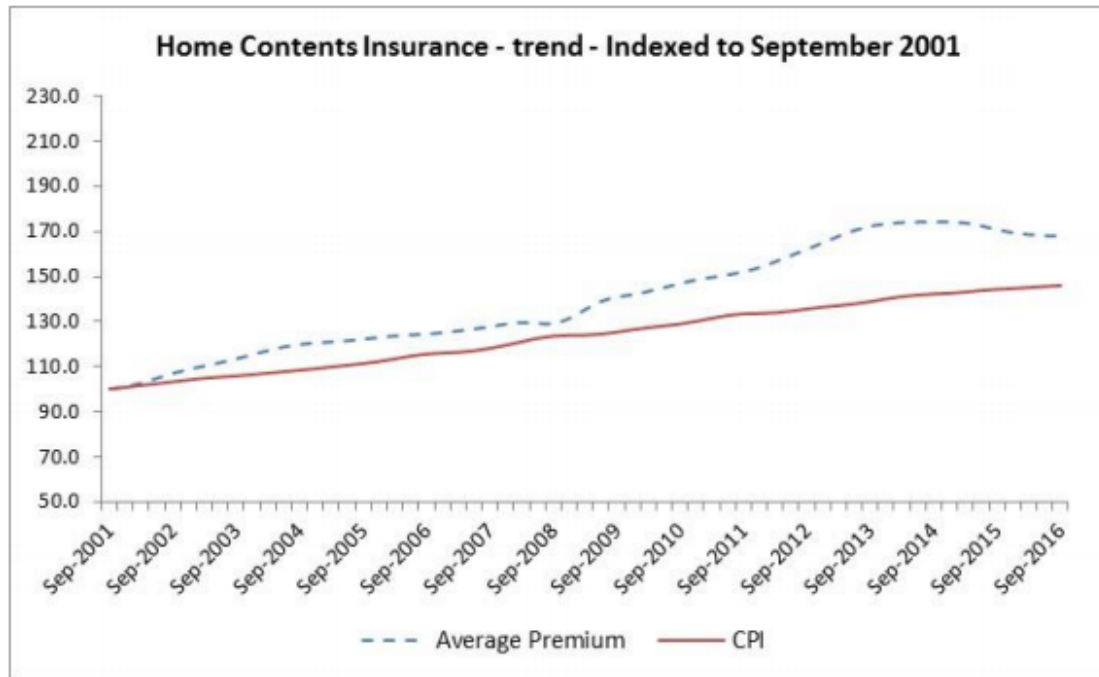
Source: www.insurancecouncil.com.au

According to the Australian Bureau of Statistics' Average Weekly Earnings figures, wages rose 48 per cent in the 10 years to May 2016 – not even one-third of the pace of building insurance premiums. As the above chart shows, consumer prices have also increased much more slowly than building insurance premiums.

Equity Economics noted in a recent report...

"The rise in (home building) premiums is concerning in the context of recent softness in wages growth, which is placing pressure on household budgets. Wages as measured by average weekly earnings grew by 10 per cent between 2012 and 2016. This means that home building premiums have outstripped wages growth by a factor of 3.7. The softness in wages means that more households may need to rely on insurance, because they may not be able to save for 'rainy days'. The recent rise in premiums makes insurance less affordable and means some households may have to do without (or with less) after an unanticipated event."

The increase in the cost of contents insurance has also outpaced CPI, according to Insurance Council data.



Source: www.insurancecouncil.com.au

The same source shows the average price of motor vehicle insurance has risen by 24 per cent since 2006.

b. competition in Australia's \$28 billion home, strata and car insurance industries

On the surface, it appears as if Australia has an adequately competitive general insurance market given there are lots of different players to choose from.

However, most of the major brands are ultimately controlled by just two companies: Suncorp and Insurance Australia Group (IAG).

The third-largest player in car insurance, Allianz, has just 6.1 per cent market share, according to IBISWorld.

What we have is the illusion of competition, rather than genuine competition.

c. transparency in Australia's home, strata and car insurance industries

Can anyone actually understand how a claim affects the price of a policy? In a recent story I showed that at least three brands secretly raise underlying premiums *at the same time* as reducing no-claim discounts. The brands are Coles and RACV — both run by IAG — as well as Allianz.

RACV and Youi even ratchet up charges when a policyholder submits a claim then withdraws it *before* receiving any payment. So the premium goes up even though the insurer doesn't incur a cost.

How many customers would know about this?

It is unreasonable to expect them to read product disclosure statements because these can now run to more than 100 pages and nearly 30,000 words, as is the case for GIO's home and contents cover; NRMA's is 96 pages and 23,500 words.

Not only is it hard to understand how a specific policy works, it is difficult to compare them to one another. None of the four largest insurance companies (Suncorp, IAG, Allianz and QBE) allow their brands' policies to be compared in any private sector comparator. This means comparison services only look at a minority of the products available to consumers.

Private sector comparison sites also lack transparency.

As I have reported, seven of the 10 car insurance brands on comparethemarket.com.au come from Auto & General Services Pty Ltd. Both Compare the Market and Auto & General are ultimately owned by Budget Holdings Limited. Three of the five home insurance brands on Compare the Market are also arranged by Auto & General.

At rival comparison site Choosi, only two home insurance brands are compared. One of them, Real, is owned by Choosi's parent, Greenstone Limited. Real is one of the five car insurance brands compared by Choosi.

A recent One Big Switch survey of more than 5000 consumers revealed 70 per cent find it too hard to compare insurance products. Those who had never changed cover providers were asked why. The difficulty of sizing-up competing offers was the number-one reason.

Australia's general insurance industry lacks transparency. Market participants could be more transparent if they wanted to be, but it serves their interests not to be.

d. the effect in other jurisdictions of independent home, strata and car insurance comparison services on insurance cover costs

There are two jurisdictions the committee should look to: Norway and California.

Norway's government backs a comparison service called Finansportalen.

In an August 2016 submission to the Productivity Commission's inquiry into "data availability and use", the Australian Securities and Investments Commission (ASIC)

cited Finansportalen as an international example of an attempt to “enhance consumer outcomes and drive competition”.

Finansportalen editor Elisabeth Realfsen recently told me in an interview that only “political measures” could counter a “lack of information equilibrium between consumers and providers”.

Ms Realfsen said she recognised financial services providers’ objections to “simplistic commercial comparison sites” for having “too much focus on price and too little focus on quality”.

I share this concern.

Public sector-operated sites are not guilty of overemphasising price.

A 2013 World Bank report, “Public Sector–Operated Price Comparison Websites: Case Studies and Good Practices”, found government-run comparison sites are better than those that are privately run because of their “objectivity and transparency”, “greater number of products and providers” and “complementary financial guidance and educational tools”.

The World Bank report said Finansportalen was the most sophisticated comparator it could identify.

According to the European Insurance and Occupational Pensions Authority’s 2014 “Report on Good Practices on Comparison Websites”, Finansportalen operates as follows...

“The insurance calculators are designed so that a consumer can perform price queries in real time from Finansportalen to all the undertakings. The data the consumer enters into the calculator forms the basis for a question that is sent to all companies offering the service in question, in real time, in the form of a web service query. Each company sends back a response in which the price of the insurance appears. Finansportalen compiles all answers and presents them to the consumer in one screen. Key qualities of the actual products are presented together with the suppliers’ price. The dialogue is based on the questions all the companies separately ask their customers, to be able to calculate prices for insurance, and is based on a parameter set that has the purpose that the various cost estimates should be comparable. The parameter set is developed in collaboration with the insurance companies and Finansportalen and with Finance Norway (The trade organization for Banks, Insurance companies and other Financial Institutions) as secretariat.”

The web address for the Norwegian comparator is www.finansportalen.no.

The Californian tool is less sophisticated than Finansportalen.

It is run by the California Department of Insurance, which uses data gathered under a piece of legislation called Proposition 103 to produce an interactive tool for comparing premiums for car, homeowner and other forms of insurance.

It takes about two minutes for a consumer to enter the personal information required to do an indicative comparison. These are the parameters:

The screenshot shows the California Department of Insurance website's 2016 Automobile Insurance comparison tool. The header includes the California state logo and the text 'California Department of Insurance'. Below this, the title '2016 AUTOMOBILE INSURANCE' is displayed. A note states: 'Please select for each applicable question below, the scenario that most closely represents your specific situation. All sample premiums displayed are annual premiums, effective as of January 1, 2016.' The form contains several dropdown menus: 'Coverage Type' (Standard), 'Location' (SAN DIEGO RAMONA), 'Insurance For' (Young Family Couple), 'Years Licensed' (13yrs/10yrs), 'Mileage' (9,000 - 16,000), 'Driving Record' (No Violations), and 'Vehicle' (Toyota Camry, Honda Odyssey). At the bottom of the form are 'Submit' and 'Reset' buttons. A footer bar contains links for 'Privacy Policy', 'ADA Compliance', 'Site Map', 'Free Document Readers', and 'Scheduled Site Maintenance'.

In the above example, the most expensive result was nearly three times the cheapest.

The California tools for car, home and other forms of insurance can be found here:
<http://www.insurance.ca.gov/01-consumers/105-type/9-compare-prem/>

I would encourage the committee to ask Ms Realfsen and a representative of the California Department of Insurance to appear or provide further information.

e. the costs and benefits associated with the establishment of an independent home, strata and car insurance comparison service in Australia

The World Bank found the price to set up Finansportalen was \$US1.7 million (\$A2.2 million), which is less than 10 cents per Australian. Still, it makes it one of the more expensive public sector-run comparison services internationally.

The Australian government-run home insurance comparison site for North Queensland cost \$3.1 million to establish and run for three and a half years, ASIC said in response to a request for information.

The very good Australian government-run health insurance comparison site privatehealth.gov.au cost \$1.4 million to set up and \$145,000 a year to maintain, the Commonwealth Ombudsman told me in response to a request.

The website had 1.2 million visits in 2015-16.

In 2015, the-then CEO of the now-defunct Private Health Insurance Administration Council Shaun Gath told me in an interview it was possible to save \$1500 a year using privatehealth.gov.au.

I used the site to save my family \$1400 a year.

If we assume only one in 10 privatehealth.gov.au users goes on to change providers and, in doing so, makes an average saving of just \$300, the combined avoided cost would be \$36 million, or about 250 times the site's maintenance bill.

I believe privatehealth.gov.au is an excellent template for a government-run general insurance comparison service. It encourages users to compare value, not just price.

Users of privatehealth.gov.au can only compare similar policies because they have to nominate the level of cover they want (basic, medium or top). They then have the opportunity to size up selected policies side-by-side, which allows them to see exactly what coverage they get under each policy. From here, they can delve further by generating a "standard information sheet" which provides details such as specific benefits payable for, say, dental, optical, physiotherapy and more.

f. legislative and other changes necessary to facilitate an independent home, strata and car insurance comparison service in Australia

Both Norway and California have laws that force insurers to provide the information that power their comparators. Norway's law appears aimed at gathering the specific data required to run Finansportalen. California's Proposition 103, passed in 1988, is much broader. Under it, insurers need the prior approval of the Department of Insurance before implementing new rates.

Wouldn't it be praiseworthy if Australian insurers offered to make the information available voluntarily?

Conclusion

The time has come to bring the same transparency to general insurance as the government has to health insurance. I argue that privatehealth.gov.au is an excellent starting point for designing a public sector-operated general insurance comparison service.

The potential benefit is great and the likely cost is small.

If you are in any doubt the need for change, try finding the best-value insurance for your own car. It will sap you of the will to live. It shouldn't be that way.