



17 February 2017

Mr Mark Fitt  
Committee Secretary  
Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600  
By email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Mr Fitt

### **SENATE INQUIRY INTO GENERAL INSURANCE INDUSTRY**

Suncorp comments on the Senate Inquiry into the General Insurance Industry.

Suncorp is one of Australia's largest general insurers, and we are proud to have been protecting what matters most to Australians for over 100 years.

We know that risk is unavoidable, but it can be managed. Australia's exposure to risk, particularly natural hazards, continues to increase. In this environment, it is critical that Australians have access to insurance to help them better manage the risks they face throughout their lives.

Over time, risk profiles change. For example, during the last decade we have seen an increased natural hazard exposure in many parts of Australia. These risk changes are reflected in changing insurance premiums.

Suncorp acknowledges the concerns raised by the Committee regarding insurance affordability.

However, we do not believe that a proposal to introduce an aggregator would have any positive impact on affordability over the long term.

Suncorp's detailed response to the Committee is enclosed. Also attached is our submission to the *Northern Australia Insurance Premiums Taskforce*, and Suncorp reports *Risky Business: Insurance and Natural Disaster Risk Management* and *Calculated Risk: A look into Suncorp's pricing calculations*.

Should you have any questions or require more information please do not hesitate to contact Lisa Backhouse, Executive Manager Government and Industry, on \_\_\_\_\_ or \_\_\_\_\_

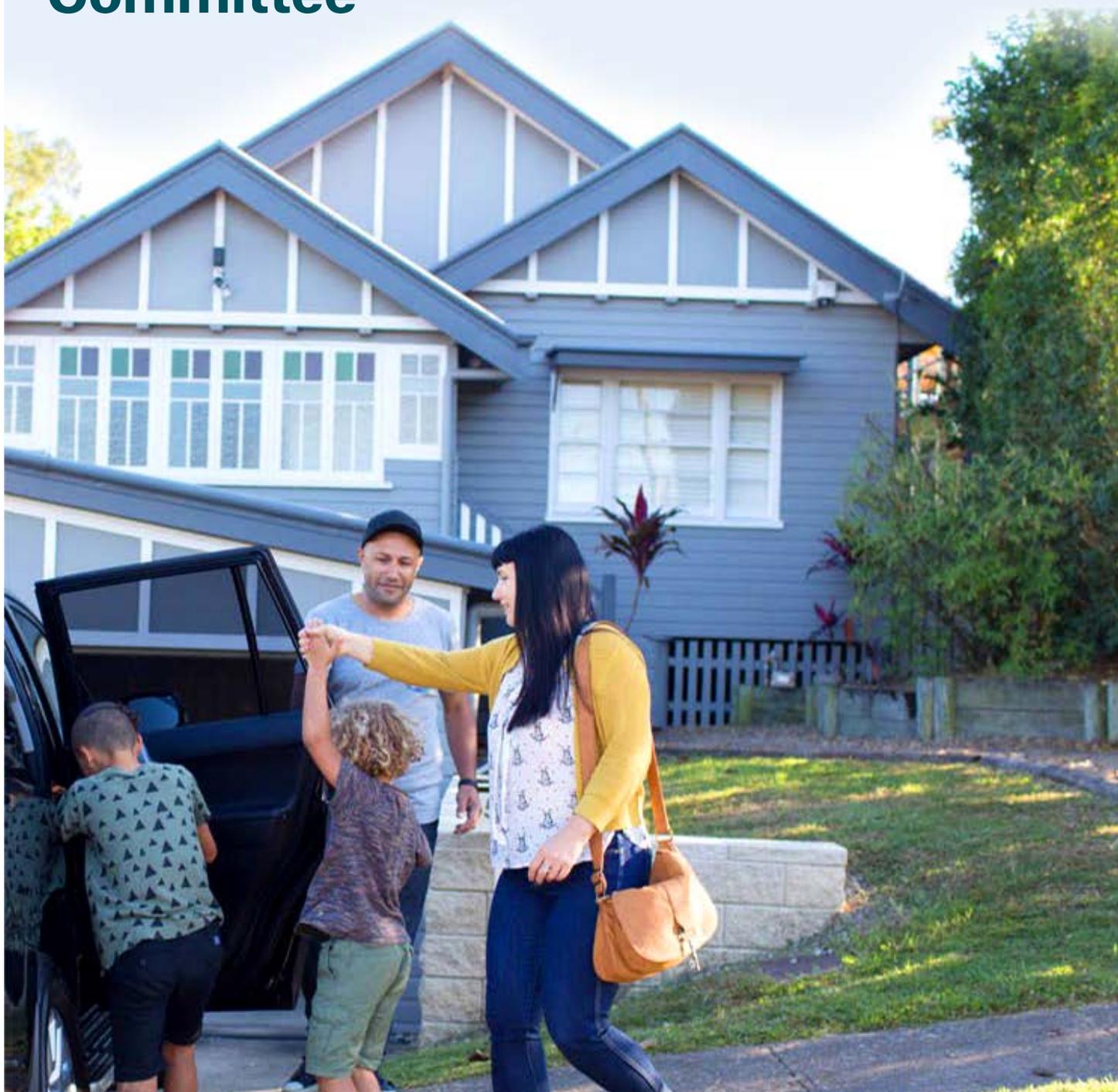
Yours sincerely

**GARY DRANSFIELD**  
**CEO Customer Platforms**  
**Suncorp**

**SUNCORP SUBMISSION**

# **Inquiry into Australia's General Insurance Industry**

## **Senate Economics References Committee**



**SUNCORP**



## EXECUTIVE SUMMARY

Risk is unavoidable, but it can be managed. Australia's exposure to risk, particularly natural hazards, continues to increase. In this environment, it is vital that Australians have access to insurance to help them better manage the risks they face throughout their lives.

As an insurer, Suncorp takes its role in the lives of its customers seriously. We've been protecting Australians and their property for more than 100 years, and more than one-in-three Australian homes has an insurance policy with the Suncorp.

Over time, risk profiles change. For example, during the last decade we have seen an increased natural hazard exposure in many parts of Australia. These risk changes are reflected in changing insurance premiums.

Suncorp acknowledges the concerns raised by the Committee regarding insurance affordability.

However, we do not believe that band-aid solutions like aggregators will have any positive impact on affordability over the long term. In fact, markets dominated by aggregators tend to lead to unsustainable pricing and an increased likelihood of underinsurance.

The only way to sustainably reduce the cost of insurance is to reduce the level of risk.

Suncorp has been a market leader in promoting mitigation and designing innovative products. We have seen this in the construction of a flood levee in Roma, which reduced premiums by up to **90 per cent**, and our partnership with single-item insurer Trōv.

### The Facts

- **Customer satisfaction is high**

Suncorp is serious about ensuring we meet the high expectations of our customers. This is demonstrated by our high satisfaction scores, positive reviews and award-winning products.

Suncorp is rolling out an innovative, customer-outcomes focused marketplace that will meet more of our customers' needs and ensure they can protect what matters most to them.

- **The Australian insurance market is highly competitive**

There are currently around 115 authorised general insurance providers operating in Australia. Numerous government reviews<sup>1</sup> over several years have found that competition in the sector is strong and pricing is appropriate to risk. Customers are encouraged to shop around and get the best deal on products that suit their needs and level of comfort with risk.

In the absence of any evidence of market failure, there is no justification for government intervention in Australia's general insurance market.

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<sup>1</sup> Australian Government, Treasury *Northern Australia Insurance Premiums Taskforce Final Report*, Canberra 2015  
Australian Government Actuary *Report on Home and Contents Insurance Prices in North Queensland*, Canberra 2014  
Australian Government Productivity Commission, *Natural Disaster Funding Arrangements Inquiry Report*, Canberra December 2014  
KPMG, "*Risk Apportionment in the Insurance Sector*", Canberra March 2014  
Deloitte Access Economics, *Building Our Nation's Resilience to Natural Disasters*, commissioned by the Australian Business Roundtable for Disaster Resilience & Safer Communities, Canberra 2013  
JCU *Cyclone Phase 1 report and phase 2 report*, Townsville 2015  
Urbis, *Protecting the North: The benefits of cyclone mitigation*, Brisbane 2015  
Australian Government, The Treasury, *Addressing the high cost of home and strata title insurance in North Queensland*, Canberra 2014

- **Aggregators lead to poor customer outcomes**

The proposal to introduce a government-run insurance aggregator website would not have any positive impact on competition. Instead, as demonstrated by the experience of an aggregator-driven UK market, it is likely to have the reverse effect of reducing coverage and potentially increasing prices.

Aggregators drive price-focused decisions, which means customers ignore vital product features, like cover for perils and natural disasters, and can ultimately lead to underinsurance or, worse, non-coverage.

- **The only way to sustainably reduce insurance premiums is by mitigating risk**

If the Federal Government is serious about reducing insurance premiums over the long term, then the focus must be on mitigating risk and increasing resilience.

Many areas of Australia are at significant risk of being impacted by natural disasters, and this is reflected in insurance premiums. By shifting government investment to protect against the risk of natural disasters, we can reduce recovery costs, lower insurance premiums and support increased productivity and prosperity for Australian communities.

Suncorp is already working with communities to build a more resilient Australia. We are focussing on areas at high risk of natural hazards to reduce their risk exposure. Our Cyclone Resilience Benefit rewards risk-reduction measures taken by our customers in high-risk areas of north Queensland with insurance premium savings.

## Outcomes

The role of government is to help protect communities and build a more resilient Australia, rather than to intervene in functioning markets. If governments are concerned about the cost of insurance, the only sustainable solution is to invest in risk reduction through mitigation.

Suncorp urges government to commit to ongoing investment in mitigation and resilience for Australian communities, to ensure insurance prices remain sustainable as risk exposures continue to increase.



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## ABOUT SUNCORP

For more than 100 years, Suncorp has been protecting what matters most to Australians.

More than one-in-three Australian homes have a policy with Suncorp, and more than **3.8 million** cars across Australia are insured with us. Suncorp owns some of Australia's most recognised and reputable insurance names including Suncorp Insurance, AAMI, GIO, Apia, Shannons and Vero. Recently, we have added innovative offerings, including Essentials by AAI (insurance for low-income earners) and Trōv (single-item insurance).

Suncorp's general insurance business offers market-leading, award-winning products and services, like:

- Complete Replacement Cover (CRC) – If your home is damaged by an insured event, we will repair or re-build it, no matter the cost.
- Capital SMART Repairs – Through the use of innovative technologies, car repairs through SMART are three-times faster than the traditional repair industry.
- HomeRepair – Established in 2002, HomeRepair repairs damaged homes for Suncorp customers and has assisted tens of thousands of home owners recover from damage caused to their home, by water, fire, storm, impact and other disasters.
- Smartphone claims apps and a 24-hour helpline.
- Full claims services, including rebuild management (which is not offered in most overseas jurisdictions where cash payouts dominate).

We pay, on average, nearly **2000** general insurance claims every day of every year to help get our customers back on their feet and support them through times of great distress.

Annually we receive almost **250,000** home insurance claims and **600,000** car insurance claims, paying out more than **\$5.6 billion** in claims in 2015-16, averaging more than **\$15 million** per day. In the last financial year, Suncorp paid out **97 per cent** of home insurance claims and **93 per cent** of car insurance claims.<sup>2</sup>

We are proud of our reputation for supporting our customers when they are at their most vulnerable. Suncorp historically pays out **98 per cent** of natural disaster claims.<sup>3</sup> In the half year to 31 December 2016, natural hazard claims costs are estimated at **\$350 million**.<sup>4</sup>

After the Queensland floods and Cyclone Yasi in 2011, almost **\$900 million** was paid out to customers. In FY2014-15 alone, we paid out almost **\$1 billion** for **100,000** claims for damage from ten declared natural disasters.<sup>5</sup>

Our focus is on customer service, and we are always working to evolve and develop new ways of deepening our relationship with our customers. In 2017, Suncorp's new marketplace strategy will reshape the way we deliver products. It's about improving the distribution of products from our many brands, and including products from third-party providers including NIB health insurance and Challenger annuities. The marketplace model will also allow us to further improve the way we manage customer claims. The marketplace is a bold new vision for financial services in Australia, and will help us to create and deliver more non-price value for our customers.

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<sup>2</sup> Percentages (decline + withdrawn)/ total closed = % paid out, (source: internal), Brisbane 2017

<sup>3</sup> Suncorp historically pays out on 98 per cent of natural hazard claims. The remaining 2 per cent of claims are for damage not covered under a customer's policy, or a small number of fraudulent claims (source: internal), Brisbane 2017

<sup>4</sup> Suncorp Media Release, *Suncorp finalises execution on New Zealand Autosure disposal*, Brisbane 2017

<sup>5</sup> Suncorp internal data, Brisbane 2017



## SUNCORP HAS BEEN PROTECTING AUSTRALIANS AND THEIR HOMES FOR MORE THAN 100 YEARS

OVER 2.7 MILLION AUSTRALIANS HAVE SUNCORP HOME AND CONTENTS INSURANCE



OVER 3.8 MILLION CARS ACROSS AUSTRALIA ARE INSURED WITH SUNCORP

ANNUALLY WE RECEIVE ALMOST **250,000 HOME INSURANCE CLAIMS** AND **600,000 CAR INSURANCE CLAIMS**



IN 2015-16 WE PAID MORE THAN **\$5.6 BILLION** IN CLAIMS, AVERAGING **OVER \$15 MILLION PER DAY**



LAST FINANCIAL YEAR, SUNCORP PAID OUT **97 PER CENT OF HOME INSURANCE CLAIMS & 93 PER CENT OF CAR INSURANCE CLAIMS**



SUNCORP HAS A CUSTOMER SATISFACTION RATING OF **8.6 OUT OF 10 FOR SMART REPAIRERS**



IN EUROPE, CUSTOMER SATISFACTION WAS RANKED **5.8**

## Suncorp's commitment to innovation

### Essentials

by AAI partnered Good with Insurance

- Suncorp and Good Shepherd Microfinance formed a partnership to create safe, affordable, and tailored insurance products for Australians on low incomes, called Essentials.
- Right now, one-in-five (**19.5 per cent**) Australian adults do not have general insurance cover for their contents, car or home.<sup>6</sup>
- Essentials has been created to provide better access to affordable, easy-to-understand products via a trusted network of providers. This enables people on low incomes to accumulate and use assets with much greater safety and confidence.

### trōv

- Trōv Protection is the world's first insurance platform that allows customers to insure their individual possessions, like cameras, tablets and laptops, on demand, and to switch their insurance cover 'on or off' for each item whenever and wherever they choose.
- Trōv Protection has been built for independence and convenience, and is ideal for millennials and renters, demographics that are renowned for underinsuring their valuables.

<sup>6</sup> The Centre for Social Impact for NAB, *Measuring Financial Exclusion in Australia* Sydney 2013

## MEETING CUSTOMER EXPECTATIONS

Suncorp's key goal is to continue to create value *for* its customers.

We are consumer-focused, competitive, and provide a personalised claims service. We use data, insights and forward-looking analytics to inform product innovation and marketing strategies, ensuring Suncorp is at the forefront of adapting to changing customer needs.

### Satisfied customers

Suncorp's customer satisfaction ratings are consistently high, showing that our customers believe we are providing them with a high-quality product.

The latest 2017 data for motor repair claims, sourced independently from Roy Morgan, has customer satisfaction at **8.6 out of 10 for SMART repairers**.<sup>7</sup> In Europe, where aggregator models control the insurance market, customer satisfaction was ranked at **5.8**.<sup>8</sup> Just recently Suncorp brands Apia and AAMI were announced the top performers, by CHOICE, in home insurance. The survey found **53 per cent** of claimants rated these brands nine out of ten for exceeding expectations.<sup>9</sup>

Suncorp publishes all reviews on our insurance products. Reviews detail customers' real experience with Suncorp's policies, and are independently verified, sourced and managed by BazaarVoice Authentic Reviews.<sup>10</sup> Across home and car policies, most products maintain ratings of at least **4.5 out of 5**.

Suncorp is committed to transparency in our insurance business, and we believe that by offering the best customer service, claims experience, features, and value-for-money products, our customer reviews and retention rates will speak for themselves.

### Award-winning products

Suncorp is committed to building innovative products that meet the needs of our customers.

In 2015, Suncorp was highly successful at the Asia Pacific Banking and Finance (AB+F) Awards, winning in five categories including: **Best in Socially Responsible Performance, Innovation of the Year, General Insurance Product of the Year, General Insurance Company of the Year, and Australian Insurance Executive of the Year** (Suncorp CEO Personal Insurance).<sup>11</sup>

Suncorp Car Insurance took out the Canstar **2016 Claims Service Award** for Outstanding Value Claims Service. In announcing the winner, CANSTAR's Group Manager for Research, Mitchell Watson, said:

“ Suncorp offers an easy-to-use smartphone claims app and also offers a 24-hour helpline ... Suncorp also received an impressive level of satisfied and very satisfied customers across their speed of response, quality and timeliness of the repairs and how well they communicated with the claimant during the process.”<sup>12</sup>

<sup>7</sup> Suncorp internal data, *Claims Customer Satisfaction Insights*, Brisbane 2017

<sup>8</sup> Ernst & Young *European motor claims: Is customer satisfaction enough?* London 2010

<sup>9</sup> <http://insurancenews.com.au/local/choice-names-its-top-performers-in-personal-lines>

<sup>10</sup> BazaarVoice Authentic Reviews, *Suncorp Home & Contents Insurance Reviews and Suncorp Car Insurance Reviews*, Brisbane 2017

<sup>11</sup> AB+F Media Release, *Suncorp shines brightest at Insurance Awards*, Sydney 2016

<sup>12</sup> Canstar Media Release, *2016 Car Insurance Claims Service Award: Winner Revealed*, Sydney 2016

Suncorp won Canstar's 2016 national award for **Contents Only Insurance** for the second consecutive year, as well taking out the national award for **Home Building Insurance**. At the time, expert rater and product comparator Canstar said:

“ Suncorp offers a well-priced, comprehensive product. Suncorp's Classic Home and Contents policy is now available to customers for a lower premium.”<sup>13</sup>

At the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) Australian Insurance Industry Awards, Suncorp was the winner in the **Innovation of the Year** and **Insurance Leader of the Year** categories for 2016.<sup>14</sup>

Suncorp's Essentials by AAI also won the **Shared Value Award** for a shared value project by an organisation or collaboration.<sup>15</sup>

Despite this continued success, we are always striving to improve our products and services to deliver for our customers.

## Looking to the future

Suncorp is focused on ensuring our business remains sustainable and competitive over the long term, particularly in the face of digital disruption.

Suncorp's new operating model is centred around a simplified, customer-outcomes focused financial services marketplace.

The marketplace provides customers access to all of Suncorp's products, services and brands, ensuring customers can always find the right product to meet their needs and protect what matters most.

Each brand and product in the marketplace will be highly differentiated and offer additional tools, experiences and benefits. This will allow us to focus on developing a relationship with our customers by meeting their specific needs. Our goal is to offer high-value solutions to our customers, with price being just one component of that value proposition.

Our focus on creating value for customers is central to everything we do. This is demonstrated by:

- The appointment of a Customer Advocate in January 2017, to ensure we remain transparent and accountable to customers and identify where we can improve our processes to better meet customer needs.
- The delivery of our first Concept Store in Parramatta, changing the way we deliver services to our customers.
- Our involvement in the development and implementation of new and innovative products, including Essentials for Australians on low incomes and single-item insurance through Trōv.

<sup>13</sup> Canstar Media Release, *Award-winning Home and Contents Insurance Policies for 2016*, Brisbane 2016

<sup>14</sup> ANZIIF *Australian Insurance Industry 2016 Award Winners*, Melbourne 2016

<sup>15</sup> Shared Value Project: *Essentials by AAI, by Suncorp group – 2016 Shared Value Award winner*, Melbourne 2016

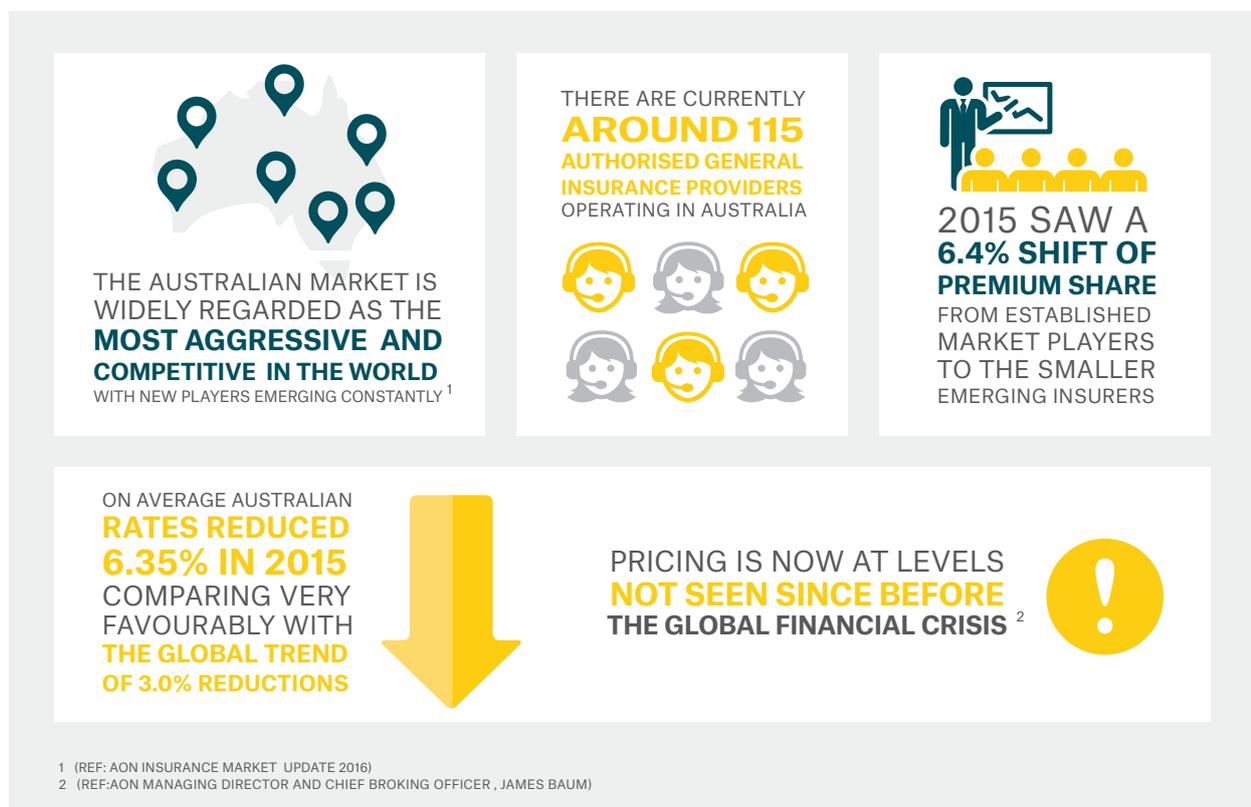
## A STABLE, COMPETITIVE INSURANCE INDUSTRY

### Australia's insurance sector is highly competitive

The Australian insurance industry is strong, sustainable and competitive. Suncorp does not support government intervention in a sector that shows no evidence of market failure.

As highlighted by the Australian Government Actuary (AGA) in a 2014 report, deep and competitive markets tend to deliver good price outcomes for consumers.<sup>16</sup> The insurance market is already extremely competitive, with new players emerging constantly. There are currently around 115 authorised general insurance providers operating in Australia.<sup>17</sup> This number will continue to grow as technical and digital innovation continues.

The number of new entrants during the past ten years has impacted the market share of incumbents, leading us to reconfigure and consistently strive to improve value for customers.



In his 2016 insurance market update AON Managing Director and Chief Broking Officer, James Baum, highlighted how tough and competitive the Australian insurance industry is on a global comparison with intense downward pressure on premiums, signalling that pricing levels were as low as pre global financial crisis levels:

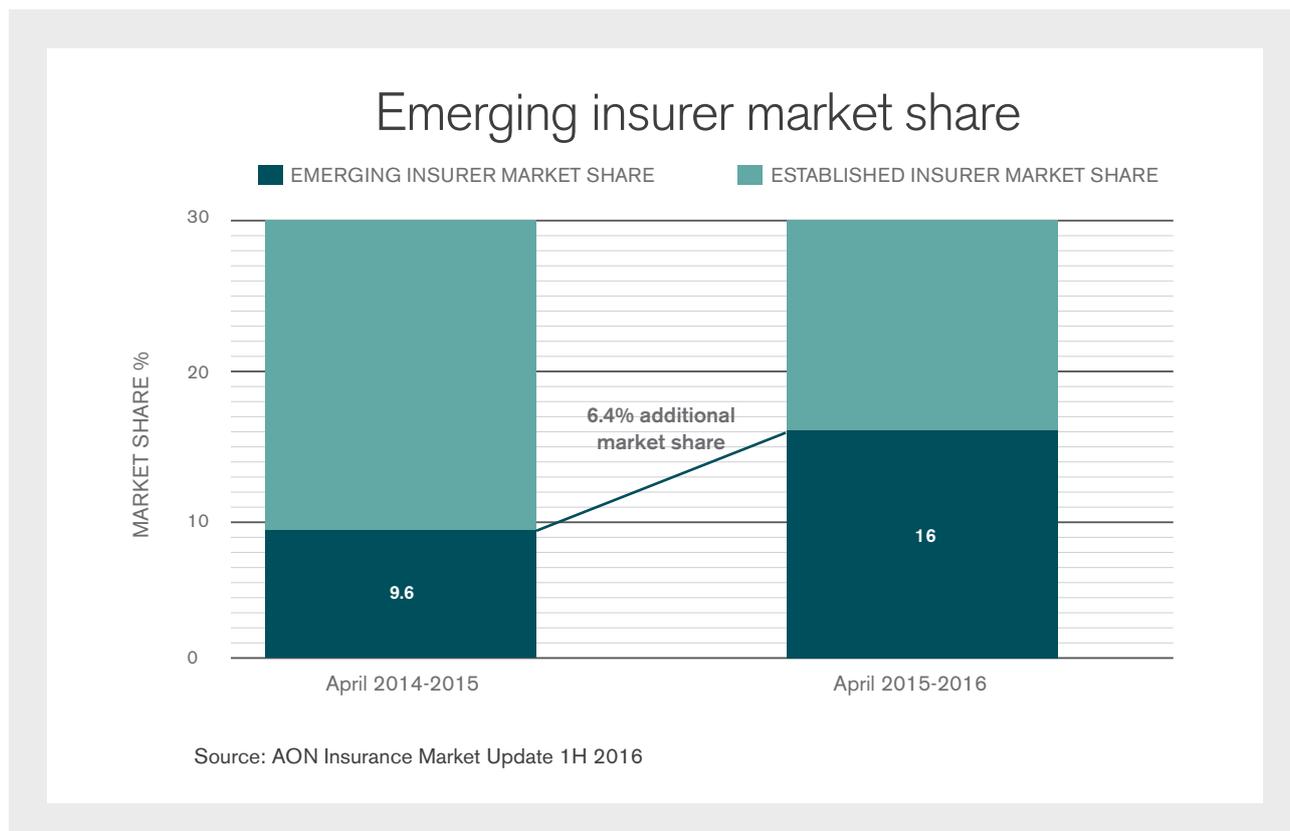
“ Heightened competition, buoyed by an abundance of global insurance capacity, coupled with falling premium rates have underscored the 2016 edition of the Insurance Market Update 1H. This drop has been compounded over multiple years of price reductions, with pricing now at levels not seen since before the global financial crisis.”

<sup>16</sup> Australian Government, Australian Government Actuary: *Second Report On Investigation into Strata Title Insurance Price Rises in North Queensland*, Canberra 2014

<sup>17</sup> APRA *General Insurance Institution-level Statistics*, Sydney, 2016

The report went on to address competition in the industry, saying:

“ ... the Australian market is widely regarded as the most aggressive and competitive in the world...with a 6.4 per cent shift of premium share from established market players to the smaller emerging markets. The outcome being more viable options for clients, while on average Australian rates reduced 6.35 per cent in 2015 comparing very favorably with the global trend of 3.0 per cent reductions.”<sup>18</sup>



The Financial Systems Inquiry (FSI) confirmed that the general insurance sector is not only competitive, but stable and well managed. The FSI found that significant reforms had already taken place in the insurance market following the demise of HIH Insurance in 2001, and beyond that, there was no compelling case to further change stability settings in insurance.

Suncorp does not support government intervention in the operation of a well-functioning and competitive market. It is unclear why the Government should intervene in a market and compete against established insurance brokers, existing commercial aggregator sites or other credible third parties. This would appear to be inconsistent with the principle of competitive neutrality and would effectively distort an existing market and business models.

<sup>18</sup> AON Insurance Market Update 1H 2016, Sydney 2016

## Innovation is vital for sustainability

Government intervention in the insurance market will not increase stability or competition. Instead, intervention is likely to have a negative impact on the industry by stifling the development of innovative product features and business models.

The FSI Interim Report published in July 2014 considered aggregators in the context of competition in the insurance market.<sup>19</sup> Among several concerns about the potential impact of aggregators, it was noted that there would be significant complexity involved in organising tailored products like insurance into an aggregator model.

For example, the inability for new business models to fit within a comparator structure would reduce the incentive for innovation in the insurance sector, particularly if insurers feel that a business change may harm their product sales through an aggregator.

Suncorp is already offering products in a way that would be difficult to reconcile with an aggregator structure, for example through our partnership with Trōv to offer single-item insurance. Our new marketplace approach will make Suncorp even more difficult to directly compare with other insurers.

The insurance industry is evolving, and Suncorp will not be the first or last financial services provider to innovate with a new operating model.<sup>20</sup> Governments should be supporting businesses who innovate to provide better services to their customers, rather than entrenching existing business structures.

## THE RISKS OF MARKET INTERVENTION THROUGH AGGREGATORS

The implementation of a market-wide aggregator model would have a negative impact on consumers.

Aggregator models have been linked to declining customer outcomes, as experienced in the UK insurance market. This is because aggregators provide a skewed view of the important features in an insurance policy.

Aggregators present insurance products as undifferentiated commodities. This makes price the key determining feature for customers. However, value is about more than just price. It reflects a balance of product features and services, which varies by market and customer type.

Unlike the UK market, where aggregator models are prominent, Australians look for insurers with the capacity to handle high volumes of claims efficiently, offer innovative products and services, and allow customers to have a direct relationship with their insurer.

If price is to become the main driver of shopping behaviour, customers are more likely to end up with unsuitable cover and poor claims experiences.

Ultimately, moving to an aggregator model would erode customer outcomes by:

- exacerbating existing levels of underinsurance by encouraging a focus on price
- commoditising insurance products, leading to a narrower range of coverage options in the market
- stifling product innovation and
- creating a disconnect between insurers and their customers.

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<sup>19</sup> Australian Government *Financial Systems Inquiry Interim Report*, Canberra 2014

<sup>20</sup> Insurance Post, QBE's *Richard Price on why insurers must innovate for customers and staff*, London 2017

## Coverage and features underpin value

Aggregators tend to be poor at comparing product features. This is why, in a market dominated by aggregators, products tend to succeed based on price.

However, understanding the features of insurance products is vital to ensuring that individuals hold appropriate cover.

Over the past few years we have been reminded of the widespread devastation unpredictable weather inflicts on communities. Floods and a major cyclone in Queensland occurred just months apart, with insured losses from these events close to **\$3 billion**. Perth and Melbourne were hit by devastating hailstorms with claims topping the **\$1 billion** mark. In addition, significant damage was caused by Victorian bushfires and more floods in northern NSW.

For customers who held appropriate insurance cover, these events highlighted the value of their cover and ensured they were not unprepared or caught short. Customers who shop purely on price, however, may not be covered when they need it most.

In 2014 an ACCC report found the simplification of information on comparator sites can obscure important differences between products and policies.<sup>21</sup> In 2012, ASIC raised concerns about the accuracy and reliability of comparison websites and warned operators that they must comply with consumer protection laws to ensure they were not misleading customers.<sup>22</sup>

APRA also cautioned the Government against introducing an aggregator for general insurance lines, 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 may not be aware of, let alone actively consider, differences in the terms and conditions of the policies they are comparing.”<sup>23</sup>

Implementation of a price-driven aggregator model will increase the likelihood that customers are underinsured or lack important types of coverage – particularly those at high risk of being impacted by natural disasters.

It will also diminish the non-price value that insurers offer, such as the offerings through Suncorp's marketplace. Suncorp relies on building a relationship with our customers in order to best meet their needs, and our value proposition is based on the benefits we offer as well as on price.

There is no current example of an aggregator that can effectively compare the value of different policy features. While the Private Health Insurance Ombudsman comparison does attempt to compare a mix of features, regulated health insurance premiums mean price-based shopping is less of a concern.

Ultimately, a market dominated by aggregators would encourage greater commoditisation of products as cheaper policies are rewarded with increased sales. This means there is no incentive to offer add-on benefits like automatic flood cover, lifetime repair guarantees, hire car services, complete replacement cover, and multi-policy discounts.

<sup>21</sup> Australian Competition and Consumer Commission, *The comparator website industry in Australia*, Canberra 2014

<sup>22</sup> Australian Securities and Investment Commission 12-304MR ASIC warns comparison website, Canberra 2012

<sup>23</sup> APRA Financial Systems Inquiry *Response to the Interim Report*, Sydney 2014, p17

## Any price reduction is temporary

While an aggregator-led insurance industry may reduce premiums in the short term, there is evidence that any price reductions that result from an aggregator model are unsustainable over the long term.

There is no evidence that exists to say that insurance is cheaper or service is better in jurisdictions where aggregators dominate. In the UK, comprehensive car insurance premiums continued to rise during Q4 2016, with motorists paying on average **£95** more than a year earlier (**A\$155**) – a **14 per cent annual increase**.<sup>24</sup>

There is also widespread speculation that prices in the UK market are still so unsustainable that insurers are cross-subsidising their motor and home books to maintain competitive premiums.

If an aggregator was to have a similar impact in the Australian market, artificially low home and motor premiums could push up the price of other kinds of insurance, spreading affordability concerns into other areas while only providing a temporary affordability boost for home and motor policies.

## The importance of relationships

In the current market, insurers work hard to develop and maintain relationships with customers.

Incentives like multi-product discounts, family discounts, flexible excesses and online discounts underpin competition in our industry and our approach to meeting the needs of customers.

Suncorp values the direct relationship it maintains with its personal insurance customers from discovery and sale through to the claims process.

This direct customer relationship provides us with the opportunity to manage expectations from start to finish, provide a better service, and aim to reduce the instances of non-coverage or underinsurance.

In contrast, aggregators distance customers from their insurer by shifting the focus of consumers away from how an insurer can meet their specific needs and toward a price-oriented decision.

Ultimately, this will make it harder for insurers like Suncorp to ensure we are delivering the best products and services for our customers.

## CASE STUDY: Aggregators in the UK insurance market

Aggregators have been a key feature of the UK motor insurance market for more than 15 years. According to the longest-running UK motor premium index, premiums initially remained relatively flat following the introduction of the UK's first aggregator in 2002. From 2007 to 2011, however, motor premiums in the UK almost doubled. They began to fall in 2012, but have since returned to close to record-high levels.<sup>25</sup>

By comparison in Australia over a similar length of time, 2008 to 2014, motor insurance premiums have followed a flat trajectory without the significant penetration of aggregators into the market.<sup>26</sup>

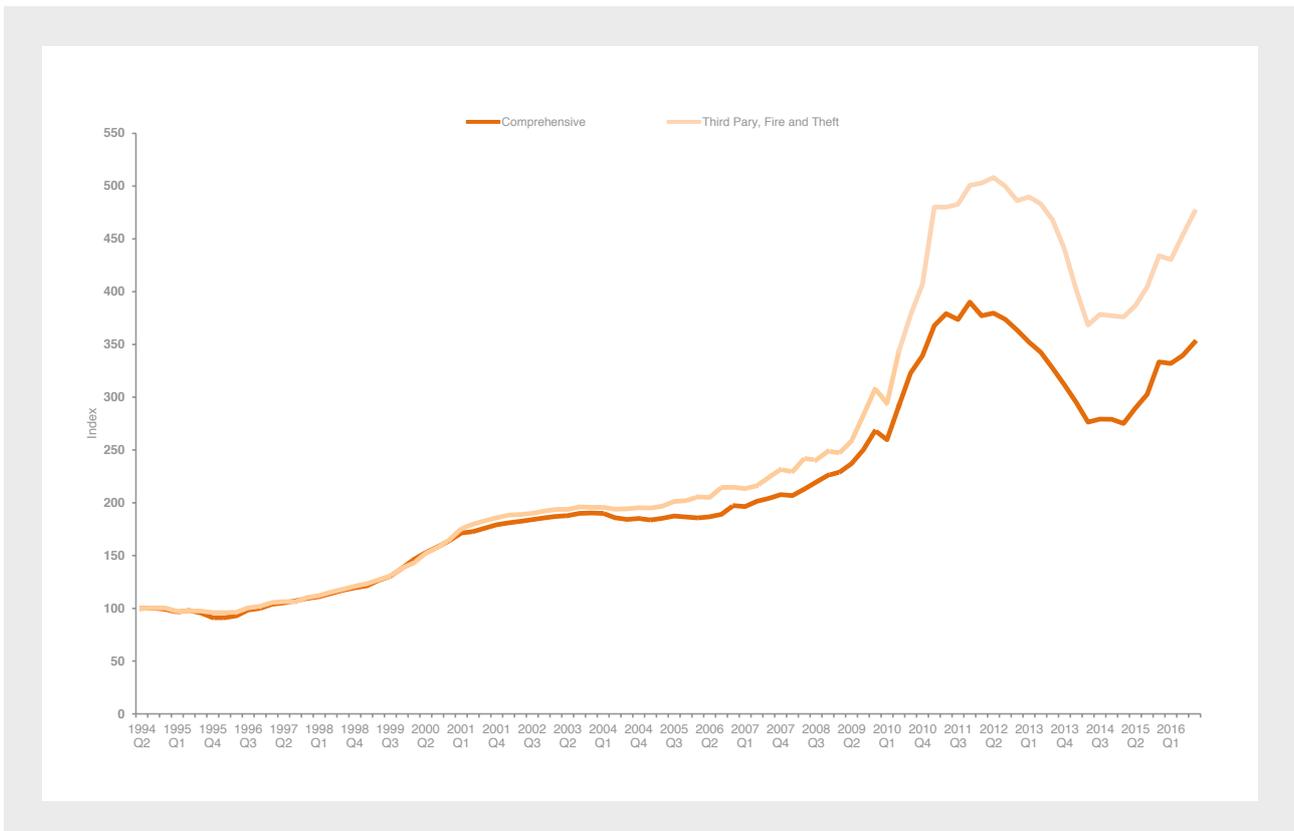
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<sup>24</sup> Confused.com Car insurance price index report, *Car insurance costs continue to accelerate*, London 2017

<sup>25</sup> AA British Insurance Premium Index, Q4 2016, London 2017

<sup>26</sup> Suncorp internal data on average motor premium levels across the industry, Sydney 2017

**Chart 1: UK Car Insurance pricing trends**



Source: AA British Insurance Premium Index, 2016 Q4, p10

When aggregators first launched in the UK, quantity of choice was the order of the day leading most competitors to use price as the key differentiator. This led to fragmented brands and differing price points overwhelming the market.

A recent review conducted by the UK *Financial Conduct Authority (FCA)* into the operation of price comparison websites (PCWs) in the general insurance sector confirmed that aggregators are unable to provide customers in the UK with the information they need to make appropriate decisions about insurance products, noting that:

“ PCWs did not present sufficient product information in a clear and consistent way, to ensure consumers were given appropriate information to allow them to make informed decisions.

“ While PCWs provide choice in the number of providers and products available, we found that they had not always taken reasonable steps to ensure consumers had the appropriate information to allow them to make informed choices. This finding applies to both the core policy and add-on products. This increases the risk that consumers may not always achieve fair outcomes, as they may buy products without understanding key features such as level of cover, excess levels, main exclusions and limitations.”<sup>27</sup>

<sup>27</sup> Financial Conduct Authority, *Price comparison websites in the general insurance sector*, TR14/11, UK, July 2014, p4

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

“ Our consumer research also indicated that consumers were price focused when using a PCW and some mistakenly believed that the extent and quality of cover for the core policy were largely the same regardless of price (sometimes believing that only add-ons and/or policy excess amounts signified differences in the level of cover). The overall focus on price was corroborated by PCWs own data on consumers using their services.

“ We also found that PCWs present the price of the core product more prominently than other information provided. This approach, combined with the shortcomings in information provision, leads to a large number of consumers buying the cheapest product (even where this may not be the most appropriate). The focus on price exacerbates the practice by providers of stripping out features from the core product to be price competitive and to appear at the top of the quote rankings.”<sup>28</sup>

The 2017 Confused.com Car Insurance Price Index and Willis Towers Watson research, based on price data from almost two million customer quotes, showed a **4.1 per cent** quarterly increase (**£30 or A\$50**) in insurance premiums. The increase in the fourth quarter of 2016 means that the average premium for an annual comprehensive car insurance policy has now reached **£767 (A\$1260)**.<sup>29</sup>

## Empowering consumer decision-making

While Suncorp does not believe aggregators serve the interests of consumers, it is still important that individuals have access to information that will help them support their decisions when purchasing insurance.

Suncorp is working with the broader industry to identify ways that we can better communicate product information to our customers.

In its response to the FSI in late 2015, the Federal Government agreed to:

“ ... support industry-led initiatives to improve guidance and disclosure in general insurance, including supporting specific proposals put forward by industry, to increase guidance and disclosure in general insurance, recognising that work is already underway.”<sup>30</sup>

The Insurance Council of Australia (ICA) is currently conducting a research project that aims to identify 'best practice' disclosure so that the industry can significantly improve the way it communicates important information about products to consumers.

As well as the information provided by insurers themselves, independent third parties play an important role in helping consumers make better decisions, including enabling them to compare products.

Suncorp, like IAG, does not work with commercial insurance aggregators or participate in their online comparison sites. Suncorp has fundamental concerns about the operation of the sites and the accuracy of the information being presented to consumers.

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<sup>28</sup> Financial Conduct Authority, *Price comparison websites in the general insurance sector*, TR14/11, UK, July 2014, p8

<sup>29</sup> Insurance Age, *Car premiums increase by 14%*, London 2017

<sup>30</sup> Australian Government *Response to the Financial System Inquiry*, Canberra, October 2015, p21

All current commercial website insurance aggregators are middlemen charging commissions and fees for their services, which are ultimately passed on to consumers. Insurance companies should not be placed in a position where they are compelled to pay for services that deliver questionable consumer outcomes, as detailed in this submission.

However, Suncorp is happy to work with other third parties, including consumer advocates Choice and Canstar, and the financial media. These organisations are independent, credible and deliver accurate comparison information on price, as well as the individual features of products, without distributing them on our behalf.

Suncorp also has a long history of working with insurance brokers and experts who provide a range of products and professional advice to consumers, focusing on one-to-one interactions that aim to tailor products to needs.

## SUSTAINABLY ADDRESSING AFFORDABILITY

### Premiums are reflective of risk

A broad range of factors contribute to changing insurance premiums.

From 2001 to 2016 wages grew at an average annual rate of around **3.4 per cent**. Average premiums for car and home insurance grew at average annual rates of around **1.7 per cent** and **8.3 per cent**, respectively, during the same period.

Rising home insurance premiums have been driven by a range of factors, including:

- sharp increases in claims volumes
- increased size of individual claims
- substantial increases in the costs associated with meeting those claims, including the cost of trades (in August 2016 CommSec research showed that building costs had risen at the fastest pace in 7.5 years)<sup>31</sup> and
- volatile, below-average investment returns since the onset of the GFC (investment returns contribute to the insurance pool available to pay claims, and higher returns can be used to offset premiums).

While growth in average premiums for home insurance exceeded growth in the Wage Price Index (WPI), car insurance has decreased against wage growth. This is against a backdrop of increasing technical complexity in car repairs as well as improved vehicle safety. The repair industry is no longer a cottage industry and has responded over the years by becoming more efficient.

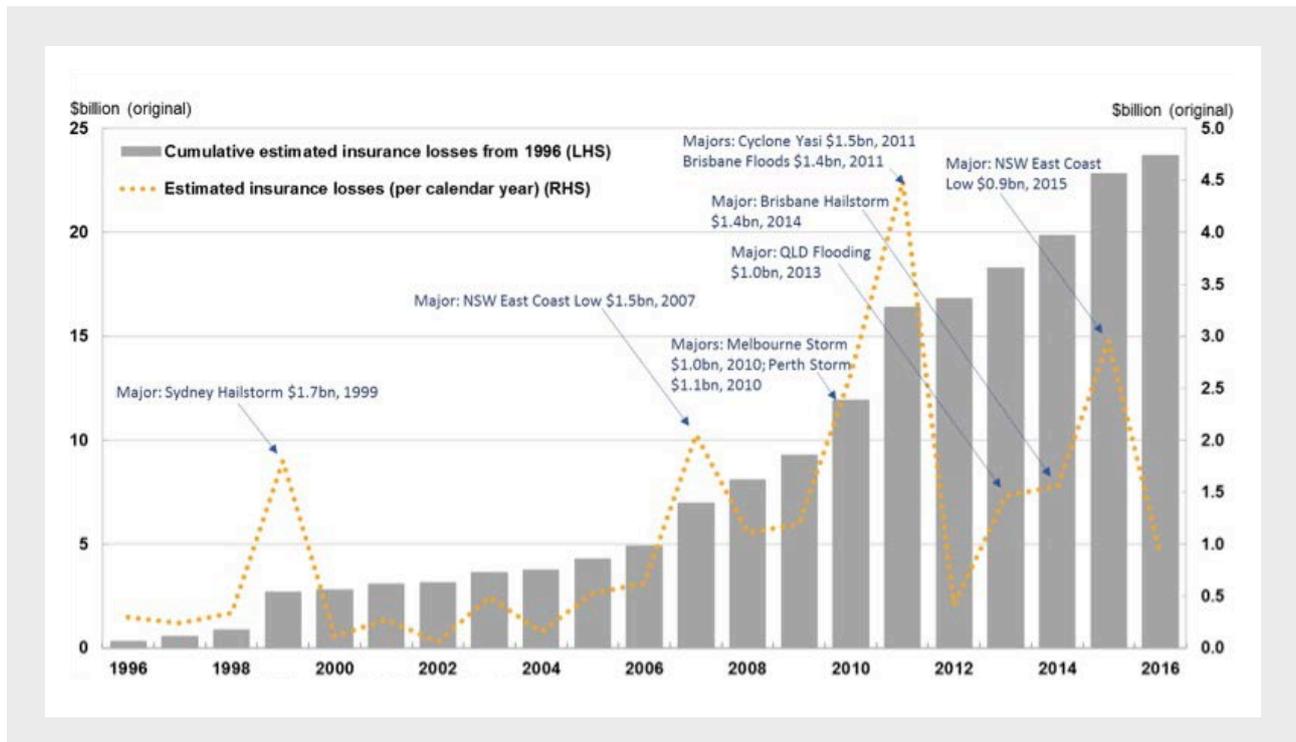
Recently though, growth in home and car insurance premiums has slowed. During the past two years, premiums for home and car insurance have been almost static, with average annual growth rates of around **0.8 per cent** and **0.3 per cent**, respectively. In contrast, the WPI grew at an average annual rate of around **2.1 per cent** during the same period.

The issue of insurance premium costs has been reviewed by the Government six times in three years. These extensive reviews do not include the large volumes of work commissioned by insurance providers, including Suncorp, and the Financial Systems Inquiry Interim Report, which addressed competition in the insurance sector. All of these inquiries have found that insurance premiums remain commensurate with the level of risk. Chart 2 on the next page shows very clearly the dramatic increase of large insurance losses due to extreme weather events in the past 20 years.

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<sup>31</sup> Commsec, Economic Insights, Building costs rise at the fastest pace in 7.5 years, Sydney 2016

**Chart 2: Estimated insurance losses from declared catastrophic events in Australia**



Source: Insurance Council of Australia

### Mitigation makes sense

In recent years, natural catastrophes in Australia, and in other regions around the world, have had huge flow-on consequences for the insurance sector globally. In 2011, for example, cyclones, severe storms, floods and bushfires ravaged many parts of Australia, which led to a record number of claims across the nation.

Higher risk levels directly impact insurance premiums. In cyclone-prone areas, for example, market failure isn't driving up the cost of insurance premiums. Prices are being driven by the cyclone activity itself and the level of risk that exists.

In March 2016, the Commonwealth Treasury released the Northern Australia Insurance Premiums Taskforce's final report, which found that mitigation was the best way to sustainably address high premiums:

“ ... the way to reduce insurance premiums on a sustained basis is to reduce the level of expected claims. In the case of cyclones, this means either reducing the exposure of properties to cyclone activity or making buildings less vulnerable to damage from cyclones.”<sup>32</sup>

Similarly, in 2014, the Federal Government commissioned the Australian Government Actuary to investigate insurance prices in north Queensland. The review found that cyclone risk is likely to be the main reason why premium rates are, on average, significantly higher than premium rates in most other parts of Australia.<sup>33</sup>

Senator Nick Xenophon has also acknowledged the link between a failure to mitigate against natural disasters and a rise in insurance premiums:

“ The costs of failed and inadequate stormwater planning and resourcing for it, are borne by the nation as a whole via the direct costs of flood recovery, clean-up, higher insurance premiums, riparian management, and of course water security. Climate change poses a number of growing threats which are best managed through pro-active planning and co-investment.”<sup>34</sup>

It is clear that Australia has a high risk of natural disasters and we need to work together to mitigate against the impacts of natural hazards and build resilience, as highlighted by the Productivity Commission (PC) in its landmark report on natural disaster mitigation funding in 2014.<sup>35</sup> Investing in disaster resilience is the best way to sustainably reduce home insurance premiums for communities.

The same PC report recommended a five-fold increase in disaster mitigation funding to **\$200 million** a year.<sup>36</sup> In October 2016, the Prime Minister called for Australia to spend more on natural disaster mitigation:

“ ... over the years, we have not spent enough money in Australia on disaster mitigation. We need to spend more in advance so that we have to spend less after the rainfall events or the bushfire events that occur. So it's important to invest in mitigation in advance and as you know the Productivity Commission has made recommendations about that.”<sup>37</sup>

However, in December 2016 the Federal Government released its response to the PC report, rejecting the recommendation.<sup>38</sup> This is disappointing given the strong support for, and evidence showing the benefits of, investing in mitigation. It remains clear that more needs to be done.

Experts and industry support the PC recommendation and agree that disaster mitigation should be central to the Government's micro-economic reform agenda.

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<sup>32</sup> Australian Government, *Treasury Northern Australia Insurance Premiums Taskforce Final Report*, Canberra 2015

<sup>33</sup> Australian Government Actuary Report on Home and Contents Insurance Prices in North Queensland, Canberra 2014

<sup>34</sup> Senator Nick Xenophon, Senate Standing Committees on Environment & Communications Report: *Stormwater management in Australia*, Canberra 2015

<sup>35</sup> Australian Government Productivity Commission, *Natural Disaster Funding Arrangements Inquiry Report*, Canberra 2014

<sup>36</sup> Australian Government Productivity Commission, *Natural Disaster Funding Arrangements Inquiry Report*, Canberra 2014

<sup>37</sup> Prime Minister Malcom Turnbull, *Doorstop*, Virginia, South Australia 3 October 2016

<sup>38</sup> Australian Government *Response to the Productivity Commission Inquiry into Natural Disaster Funding Arrangements*, Canberra December 2016

Dr Anthony Bergin of the Australian Strategic Policy Institute said:

“ The commission's report made some very sensible suggestions as to why we should be boosting investment in disaster prevention: our economy won't suffer as much damage in a disaster, we can unlock productivity gains and, importantly, homeowners and businesses should pay less for insurance as their risk drops.

“ We should be investing more in mitigation because it is the preventive health piece of the community resilience story. We shouldn't however, be framing this as a cost – just as we don't think about public health measures in this way when it comes to disease.”<sup>39</sup>

IAG CEO Peter Harmer called on the Government to assist:

“ We have heard from policy makers, ministers and even the Prime Minister himself, that we have the funding mix wrong – we spend too much money after disasters hit and impact Australian lives. Even as recently as October, the Prime Minister said we have not spent enough money in Australia on disaster mitigation and we need to spend more in advance.”<sup>40</sup>

The Australian Business Roundtable for Disaster Resilience & Safer Communities (the Roundtable) said:

“ ... the Roundtable believes that more work needs to be done particularly in the area of funding for disaster resilience and mitigation and would urge the Government to reconsider its decision to delay increased funding for this critical recommendation.”<sup>41</sup>

Increased government investment in mitigation, consistent regulations, easily accessible natural-hazard risk information, improved land-use planning systems, stronger building codes, robust mitigation programs and post-disaster improvements to infrastructure are just some of the things that can be changed to significantly reduce disaster risks, thus reducing insurance premiums.

## Suncorp and disaster mitigation

Communities that implement improved natural disaster risk management practices not only benefit by avoiding the costs associated with natural disaster, but are also rewarded with lower insurance premiums and reduced uninsured exposures.

Effective mitigation protects vulnerable communities, safeguards property, builds stronger economies and, ultimately, reduces the cost of insurance. Suncorp is already acting to help communities improve disaster resilience. In 2014, we were able to slash insurance premiums for Roma residents by up to **90 per cent** after a new flood levee was built.<sup>42</sup> This followed similar reductions in Charleville and St George.

In March 2016, Suncorp launched the Cyclone Resilience Benefit which rewards customers in north Queensland with premium reductions of up to **20 per cent** for making their homes more cyclone resilient. More than **24,000** Suncorp customers in north Queensland have already received a benefit for different features and upgrades.

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<sup>39</sup> Dr Anthony Bergin, Senior Analyst, Australian Strategic Policy Institute, Australian Financial Review: A Government that's underwhelmed by disaster, 12 January 2017

<sup>40</sup> Australian Business Roundtable for Disaster Resilience & Safer Communities Media Release, *Roundtable emphasises the need for a better funding mix after government's response to disaster mitigation funding*, Sydney 2017

<sup>41</sup> Australian Business Roundtable for Disaster Resilience & Safer Communities Media Release, *Roundtable emphasises the need for a better funding mix after government's response to disaster mitigation funding*, Sydney 2017

<sup>42</sup> Suncorp Media Release *Suncorp starts writing new business as Roma levee kicks off*, Brisbane 2013

Economic modelling also demonstrates that the benefits of investing in mitigation would extend across the affected communities into the Australian economy. In 2014, Suncorp commissioned KPMG to model the impact of a structured disaster mitigation program. The modelling showed that investing **\$250 million** in mitigation and resilience measures per year over ten years would drive a **\$6.5 billion** increase in GDP.<sup>43</sup>

## CONCLUSION

Suncorp recognises the importance of Australians having access to affordable insurance products delivered by a strong, sustainable insurance sector.

However, government intervention in a competitive, stable market is not the way to achieve positive long-term outcomes for consumers.

Suncorp recommends government consider and address the underlying reasons for increasing insurance premiums, in particular the increasing risk exposure of Australian homes.

Risk mitigation is the only way to effectively reduce insurance premiums over the long term. There is substantial research showing that mitigation investments not only reduce the impact of natural disasters but benefit the whole economy.

Suncorp urges government to commit to a nationwide approach to risk mitigation that will enable insurance affordability issues to be managed in a sustainable, permanent way for the benefit of all Australians.

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<sup>43</sup> KPMG, "Risk Apportionment in the Insurance Sector", Canberra, March 2014, p3.

## **APPENDICES**

**Suncorp's Submission to the Northern Australia Insurance Premiums Taskforce**

**Risky Business: Insurance and Natural Disaster Risk Management**

**Calculated Risk: A look into Suncorp's Pricing Calculations**



