

Senate Economics References Committee

Inquiry into Australia's general insurance industry (Inquiry)

Additional document by Compare the Market Pty Ltd (Compare the Market)

1. Introduction

- 1.1 Compare the Market's primary submission to the Inquiry was the only submission by an industry participant in support of a government-run general insurance comparison service. The reason for our position was simple and principled: we believe in the consumer benefits that flow, in any industry, from consumers being able to easily compare the price and merits of competing products side by side. By presenting complex information in one place and highlighting the differences between competing products in a simple and accessible way, comparison websites make difficult purchase decisions easier for consumers, encourage disengaged consumers to compare more options than they might otherwise, and make an otherwise boring task relatively painless. They also intensify competition between industry participants and allow new entrants to compete with existing brands on a level playing field.
- 1.2 In Australia, the consumer benefits that commercial comparators can deliver are being realised in a number of competitive industries. Compare the Market plays a role in that, and we are proud of the customer experience and range of product choice that we offer across a number of our product categories including health insurance where we compare products from twelve different funds (including eight of the ten largest by market share), travel insurance where we compare twenty-eight insurance brands from eight different underwriters, and energy where we compare products from eleven separate retailers.
- 1.3 We agree that Australian consumers are not able to realise, at this stage, the full benefits of comparison in the general insurance industry. In our view that is because of the refusal of Australia's largest insurers, which together hold a dominant market share, to participate on any commercial comparison website for car or home and contents insurance comparison. If they were to participate, Australian consumers would have a very valuable tool at their disposal when considering their general insurance options. But the dominant insurers refuse to participate and they don't support a government run service.
- 1.4 The purpose of this additional document is to respond to some of the reasons cited by Australia's large general insurers, both in their written submissions and at the public hearings to the inquiry on 12-13 April 2017 (**Public Hearings**), for their refusal to allow their products to be compared. In our view, the reasons do not withstand scrutiny. Consequently, we suspect that the true reason is that the large insurers are not prepared to display their products on a

side-by-side basis with their competitors, and are concerned about what being forced to do so might mean to their market share.

- 1.5 In our view, in his opening statement at the Public Hearings Mr John Rolfe captured the issue perfectly when he said:

“Among the big four insurers—IAG, Suncorp, QBE and Allianz—there is not one that allows their policies to be sized up on any private sector comparison site. This quartet, which controls 64 per cent of the car insurance market and 80 per cent of home insurance, is dead against being compared against each other or any of the smaller players. What's more, they do not put last year's premium on the renewal notice—so they have not even been willing to be compared against themselves.”

2. A better way to research and buy than direct or through brokers

- 2.1 A number of witnesses at the Public Hearings suggested that commercial comparators:

- a) focus consumers' attention too heavily on price at the expense of cover and features; and
- b) provide insufficient transparency in relation to supplier commissions and product result and ranking mechanisms.

- 2.2 In reality, commercial comparators make it easier for consumers to compare cover *and* price in an industry where understanding of policy coverage is poor and increased competition on price is justified; and in the process they offer greater transparency than insurance brokers, which insurers have traditionally used to sell their products.

Policy cover

- 2.3 When a customer purchases a product online through Compare the Market they are given the same amount of information about that product as they would be given if they purchased online direct through the insurer. Specifically, Compare the Market provides its customers with a summary (which is written by our partner insurers) of inclusions, benefits and optional extras, and we include links to “more information” pages as well as policy documentation for customers that want to investigate particular policies further. That is to say, the customer is given no less information on the policy coverage for each product when they use Compare the Market, but they:

- a) are only required to provide their personal and risk information once; and
- b) can compare coverage for numerous policies in one place, side by side.

2.4 When done this way, in our view product comparison leads to better outcomes for consumers than purchasing direct through insurers, as they might be alerted to coverage differences between policies that they may not have otherwise become aware of.

2.5 We strongly disagree with the Insurance Council of Australia's suggestion that the nature or complexity of general insurance products makes them unsuitable for comparison websites. We do not disagree that comparison of general insurance is a complicated task, but it can be done, and when it is done well the complication at the customer's end is reduced. We have shown this to be the case in relation to health insurance, where we are pleased to assist many tens of thousands of customers every year with what is a very complicated purchase.

Price

2.6 Competition on price is a great thing for Australian consumers struggling with cost of living pressures. We agree with Professor Fels that the price variance data provided to the Committee by him supports the contention that there is not effective price based competition in the general insurance industry at present.

Historical use of brokers

2.7 The submissions at the Public Hearings by the large insurers that commercial comparators provide insufficient transparency about:

- a) the way they determine the order in which products are presented to customers; or
- b) the commissions that they receive from suppliers for sales,

were in our view disingenuous given that insurers have traditionally used brokers – which offer little to no transparency on these issues – to sell their products.

2.8 In any event, the receipt of commissions that may vary from supplier to supplier is a commercial reality: commissions are negotiated at length and suppliers each have different priorities, customer acquisition strategies and cost structures. At Compare the Market, the amount of commission that we receive has no bearing on the impartiality of our service or the way that we present products to our customers. Nevertheless, we are conscious of the risk of perceived bias and for that reason on 1 March 2016 we announced an industry-first standard pricing model for our health insurance comparison service under which all our partner funds pay the same fee (which is disclosed to our customers) for the service we provide. We hope to be able to offer the same transparency in other product lines in time.

3. Comparison websites are supported by regulators in the UK and have been good for consumers

3.1 Submissions at the Public Hearings to the effect that the success of commercial comparators in the UK has led to negative customer outcomes in our view betray the vested interests of the witnesses that made them. We encourage the Committee to review in full:

- a) the UK Regulators Network's (led by the Financial Conduct Authority) (**UKRN**) "Price comparison websites: Final Report" published on 27 September 2016¹ (**UKRN Final Report**); and
- b) the Competition and Markets Authority's (**CMA**) "Digital comparison tools market study: update paper" published on 28 March 2017² (**CMA Update Paper**),

which illustrate those UK regulators' view on the role of comparison websites in the UK markets in which they operate. While both papers address concerns and potential risks associated with comparison websites, they are broadly positive about the role of commercial comparators and the benefits that they bring to consumers in the UK markets in which they operate. Certainly there is nothing in either of them to suggest that, as the Insurance Council of Australia contended at the Public Hearings, "the experience with these websites in similar markets, most notably the UK, has been to the detriment of consumer choice, competition and product choice".

3.2 The UKRN Report is the outcome of an investigation by the UKRN into the role of comparison websites (which it calls "price comparison websites"), the consumer expectations of comparison websites, and how comparison websites are regulated. In the foreword to the UKRN Report, the UKRN states:

*"Price comparison websites (PCWs) have developed steadily and organically over the last decade, gaining popularity among consumers and becoming the online tool of choice for those who want to secure a good value deal easily. They can help shoppers to feel more empowered by allowing them to compare prices and services from different providers in a matter of clicks. In addition, PCWs can stimulate stronger competition between firms, by helping to remove barriers to growth and encourage new entrants. And that is ultimately good for consumers too."*³

3.3 The UKRN further states, in the Executive Summary to the UKRN Report:

"PCWs offer benefits to consumers, when they navigate potentially complex purchases, and they reduce the search time comparing similar products in one place. There are also

¹ Available at <http://www.ukrn.org.uk/wp-content/uploads/2016/09/201609027-UKRN-PCWs-Report.pdf>

² Available at <https://www.gov.uk/cma-cases/digital-comparison-tools-market-study>

³ UKRN Report, p4

advantages for the product or service providers because they bring together shoppers and firms more easily and, in some cases, more cheaply than other acquisition channels. This can reduce the barriers to entry and growth that providers might otherwise face, it can stimulate stronger competition and innovation between firms, and encourage new entrants, resulting in further benefits for consumers.

However whilst PCWs can bring benefits, their effectiveness as a tool for enhancing consumer engagement and competition may be undermined if consumers are unable to navigate the information presented to them, if they do not have confidence in the conduct or safety of the websites or if they do not shop around amongst PCWs to find the best deal.”⁴

- 3.4 The CMA Update paper is an interim paper arising from a market study by the CMA of comparison websites (which it calls “Digital Comparison Tools”) in the UK. In stark contrast to the attitude of a number of witnesses at the Public Hearings, the purposes of the CMA’s market study are to:

“(a) produce an authoritative assessment of the role of DCTs for use by all policymakers and other stakeholders – the benefits that they offer and the merits and extent of concerns that have been raised about them;

(b) identify how to maximise the benefits that DCTs can deliver – for example by ensuring that consumers have sufficient and well-placed trust in them, or ensuring that regulation is proportionate and well-designed; and

(c) reduce barriers to the effective functioning of DCTs, such as consumer distrust, or DCTs’ access to the data they need in order to offer a compelling service.”⁵

- 3.5 It is due to publish a final report by 28 September 2017, but it has recently published an update paper addressing its preliminary findings. In the introduction to the CMA Update Paper, the CMA states:

“DCTs, such as price comparison websites (PCWs), have played an increasingly important role over the past 15 years, in sectors ranging from financial services to utilities and travel. Our consumer survey found that 85% of UK consumers with access to the internet have used a DCT and we estimate that in 2015, consumers made 10.8 million transactions through the largest DCTs in four sectors alone.

Our past work, including on private motor insurance (PMI) and payday lending, found that DCTs can increase competition and offer significant benefits to consumers – allowing

⁴ UKRN Report, p5

⁵ CMA Update Paper, p14, paragraph 2.6

them to make better, more informed choices. Our market investigations into energy and banking also highlighted how DCTs could be a way of increasing competition, where low levels of engagement and switching have meant that consumers have not reaped the benefits of cheaper and/or better services.”⁶

4. Response to specific criticisms about Compare the Market

- 4.1 Given the non-participation of the largest general insurers, our car insurance and home insurance supplier panels are narrower than for other products that we offer. That is not due to a lack of willingness or initiative on our part: once every year we send all underwriters not on our panel a formal letter, and more regularly than that we touch base with them informally, extending them an invitation to participate on our website.
- 4.2 We hope that the strength of our comparison service in car insurance and home and contents insurance will continue to improve over time. Pleasingly, we have recently introduced Ensurance Ltd, which is an agent of Lloyd's of London, to our home and contents panel, and we expect to introduce a new brand and underwriter to our car panel in the coming weeks. We are proud that our business model provides opportunities to new brands and innovative products. More broadly, growing the panel of providers on our general insurance panels will allow us to better serve our customers, dilute the percentage of brands that are underwritten by Auto & General (with whom we share common ultimate ownership, which causes us problems of perceived bias even though there is no actual bias - Compare the Market acts in the best interest of its customers and pays no attention to the identity of suppliers when presenting products to them), and match the strength of our comparison service for other products.
- 4.3 In the meantime, so that our customers are properly informed and in fulfilment of our financial services obligations we make prominent disclosures to our customers about who we compare. On each of our car insurance and home and contents insurance home pages (see <https://www.comparethemarket.com.au/car-insurance> and <https://www.comparethemarket.com.au/home-contents-insurance> respectively) we disclose the identities of the participating brands together with the words, “We do not compare all brands in the market, or all products offered by all brands. At times certain brands or products may not be available or offered to you. Learn More.” The link at the end of that sentence opens a page that lists the brands and underwriters on each panel and discloses our relationship with Auto & General. Similar disclosures are contained in the disclaimer in the footer of our website, in our Financial Services Guide, and in our Website Terms of Use. In our television advertisements, we use disclaimers like “We do not compare all brands in the

⁶ CMA Update Paper, p13, paragraph 2.2-2.3

market” or “Visit our website for information on the range of brands we compare”. We consider that these extensive disclosures properly explain the nature of our service.