

Chapter 4

Insurance comparison services: costs and benefits

4.1 In addition to the barriers imposed on consumers by flaws in the current product disclosure regime, consumers' ability to effectively compare insurance products is also impeded by the considerable time and effort required to obtain quotes and compare product offerings across the general insurance market.

4.2 Compare the Market aptly summarised this problem, submitting that:

It is difficult for Australian consumers to easily compare insurers or products of general insurance through their own independent research direct with the insurers...the process of obtaining even a single quote requires the consumer to spend a significant amount of time answering a number of personal and risk-based questions. Repeating the process for numerous products or insurers is tedious.¹

4.3 In examining ways to increase transparency and address the information gap that exists between insurers and consumers, the committee looked at the utility of comparison services as a tool for enhancing the comparability of home, strata and motor insurance products. In particular, the committee inquired into the costs and benefits associated with the establishment of an independent home, strata and car insurance comparison service in Australia.

4.4 As noted in chapter 2, an insurance comparison service, often referred to as aggregator or price comparison website (PCW), is generally an online platform that acts as an intermediary between insurers and consumers searching for a range of insurance products. Consumers are usually required to provide certain personal details online before being presented with information on a number of insurance products to compare.²

4.5 In 2014, the Australian Competition and Consumer Commission (ACCC) released a report on the comparison website industry in Australia. The report observed that comparison services can facilitate consumer choice by assisting consumers to quickly and easily filter information to a level that allows them to make a decision. Additionally, the ACCC report noted that comparison services can benefit competition by acting to remove some of the barriers to entry for new market entrants.³

1 Compare the Market, *Submission 3*, [p. 2].

2 Insurance Council of Australia, *Submission 13*, p. 25.

3 Australian Competition and Consumer Commission, *The comparator website industry in Australia*, November 2014, pp. 2, 14–16. See also, Australian Securities and Investments Commission, *Submission 22*, p. 20.

4.6 A 2013 report by the World Bank on public-sector operated comparison websites also discussed the merits of comparison services, observing that they allow consumers:

...to easily search for and compare product offerings in the market, helping to broaden disclosure and transparency during the shopping phase. These websites can increase market competition by creating competitive pressure among providers to lower prices and improve product offerings.⁴

4.7 The report also commented on the relative advantages of public-sector operated comparison sites. These advantages included:

...the objectivity and transparency of the public sector site operator, the greater number of products and providers that may be compared in one website, and the combination of comparative pricing data with complementary financial guidance and educational tools.⁵

4.8 However, the World Bank report also noted that 'there are inherent limitations to price-comparison websites' and 'price comparisons are most useful for comparing standardized, commoditised products and are less appropriate for sophisticated products'.⁶

4.9 ASIC echoed this view in its submission to the inquiry, advising that:

In reviewing the role of comparison services in assisting with comparability and competition on price and features, it is important to recognise and consider the challenges of establishing such a service and the potential unintended consequences.⁷

4.10 It is important to note that the inquiry's terms of reference did not designate whether participation in any proposed independent comparison service would be mandatory or voluntary. However, much of the evidence received during the course of the inquiry was given under the assumption that participation in such a service would be mandatory.

4.11 ASIC, as the regulator with primary responsibility for the general insurance industry, advised that:

Without broad industry agreement, legislative change would be necessary to allow the independent operator of the service to compel all insurers to provide information about their product offerings and to agree to comparisons of their products being publicly displayed to consumers.⁸

4 World Bank, *Public Sector-operated Price-comparison Websites: Case Studies and Good Practices*, 2013, pp. 4–5.

5 World Bank, *Public Sector-operated Price-comparison Websites: Case Studies and Good Practices*, 2013, p. 5.

6 World Bank, *Public Sector-operated Price-comparison Websites: Case Studies and Good Practices*, 2013, p. 5.

7 Australian Securities and Investments Commission, *Submission 22*, p. 3.

8 Australian Securities and Investments Commission, *Submission 22*, p. 25.

Stakeholder views

4.12 Some inquiry participants were encouraging of the proposal to establish an independent comparison service in Australia.

4.13 Compare the Market noted its support for such an initiative, asserting that:

...we are strong believers in the consumer and industry benefits that flow from consumers being able to easily compare the merits of competing products side by side. A government-run general insurance comparison service would:

- a) make it easier for consumers to compare the relative merits of competing insurers and insurance policies; and
- b) intensify competition—both on features and price—between insurers, which ultimately benefits consumers.⁹

4.14 Professor Allan Fels and Professor David Cousins suggested that an independent comparison service would help address information asymmetry and empower consumers by enhancing competitive price pressure in the property insurance market.¹⁰

4.15 Mr John Rolfe argued that 'there is an urgent need to assist consumers in their efforts to find good-value insurance cover for their homes and motor vehicles' and described an independent comparator as a 'cost-effective solution'.¹¹ Mr Rolfe further emphasised this point, submitting that:

If you are in any doubt [of] 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.¹²

4.16 However, the majority of inquiry participants were not supportive of the proposal for an independent comparison service, with many arguing that such a service could have detrimental impacts on consumers and on the operation of the general insurance industry as a whole.

Harm to consumers

4.17 Submitters' main concern with regard to an independent comparison service for general insurance is the propensity for such services to focus consumer attention on price, rather than the value or suitability of a product. Specifically, submitters argued that comparison services present and compare insurance products as undifferentiated commodities, thus reducing consumers' purchasing decisions to one based on price alone. This overly simplistic comparison can result in consumers

9 Compare the Market, *Submission 3*, [p. 1].

10 Professor Allan Fels AO and Professor David Cousins AM, *Submission 23*, p. 11.

11 Mr John Rolfe, *Submission 1*, [p. 1].

12 Mr John Rolfe, *Submission 1*, [p. 7].

disregarding important differences in policy cover, terms and conditions, and risks them purchasing cover unsuitable to their needs.¹³

4.18 This view was shared across a range of stakeholders, including regulators, industry and consumer groups. For example, the Financial Rights Legal Centre (Financial Rights) submitted that:

In general, comparison websites provide only a very simplistic and often inaccurate overview of different insurance policies and tend to reduce the complex insurance purchasing decision to one based on price alone—disregarding differences in policy cover, product options and claims service capabilities. The scope of cover, product options and claims service capability vary greatly across the industry and using a comparison website can fail to take these factors into account and carry some hidden catches.¹⁴

4.19 Similarly, the ICA argued that:

The design and natural price focus of PCWs, regardless of whether they are commercially run or independently operated can create an environment which leads a consumer to purchase an insurance product that is not right for their needs. A 'one stop shop' PCW may cause consumers not to detect differences between policies and choose a policy based on price or convenience. This creates a risk of under insurance or at least less than ideal coverage.¹⁵

4.20 NIBA echoed this view, making the point that comparison services risk misleading consumers with regard to their policy coverage:

NIBA strongly challenges the potential benefit of so called insurance comparison services. In our experience, comparison services focus on price and price only, and do not take account the risk needs of the consumer, or the variations in terms and conditions in the policies being offered via the service. They therefore have the capacity to offer false security and misleading information to uninformed consumers.¹⁶

4.21 ASIC noted how comparison services can lead to a 'hollowing out' of insurance products, whereby insurers reduce policy coverage in order to remain price competitive:

Such websites can create an incentive for insurers to reduce policy coverage to ensure that they are price competitive and appear more prominently on results pages that rank insurers according to price. Consumers can therefore

13 See, for example, Financial Rights Legal Centre, *Submission 9*, p. 21; Insurance Council of Australia; *Submission 13*, p. 30; Australian Prudential Regulation Authority, *Submission 7*, p. 3; Suncorp, *Submission 14*, p. 12.

14 Financial Rights Legal Centre, *Submission 9*, p. 21.

15 Insurance Council of Australia, *Submission 13*, p. 30.

16 National Insurance Brokers Association, *Submission 2*, p. 2.

end up purchasing cheaper policies that may not provide adequate coverage.¹⁷

Harm to competition

4.22 In addition to potential harm to consumers, several submitters argued that the focus of comparison services on price over qualitative product features can also be harmful to competition in insurance markets.

4.23 APRA advised that, from a prudential perspective, comparison services 'can pose a risk of mispricing by uncovering and potentially exploiting deficiencies in insurers' pricing models'. APRA further elaborated on this point:

Companies attempt to price risk to the best of their abilities, based on various metrics and internal models. These are rarely perfect and companies will tend to offer different prices for the same risks. This means that at any one time, an insurer will likely be under-pricing some risks and over-pricing others. Aggregators may exploit this weakness by having insurers attain a disproportionate share of business for which they have unintentionally mispriced. This can result in negative implications for insurer's profitability, putting potential strain on capital and adversely effecting policyholder interests.¹⁸

4.24 Allianz also commented on this risk, explaining that the inherent price focus of comparison services can result in insurers being 'selected against' due to an accumulation of consumers with a particular risk profile.¹⁹ Allianz described this process of anti-selection in its submission:

Experience with insurance comparison sites shows that it biases consumer purchasing behaviour towards an unhealthy focus on price over the qualitative features of insurance products. Customers faced with a range of prices for insurance cover offered by a number of well known, established and trusted brands, tend to gravitate to the lowest price. Even if the lowest priced insurer has best practice pricing capability and does not believe it has mis-priced the risk, it then suffers a different type of insurance risk. That is, accumulation risk, or the risk of accumulating an excessive share of customers with a particular risk profile, which may exceed the insurer's risk appetite for customers with that risk profile.²⁰

4.25 Newer market entrants are more vulnerable to anti-selection, as their risk pricing capabilities tend to be less sophisticated than long-standing insurers. To that end, comparison services increase the likelihood of such insurers exiting the market to seek better returns on their capital and investment.²¹ As noted by Allianz, over time,

17 Australian Securities and Investments Commission, *Submission 22*, p. 5.

18 Australian Prudential Regulation Authority, *Submission 7*, p. 2.

19 Allianz, *Submission 4*, p. 18.

20 Allianz, *Submission 4*, p. 18.

21 QBE, *Submission 16*, p. 16; Allianz, *Submission 4*, p. 19.

'such an outcome is likely to lead to industry consolidation and, consequently, less competition in the market for that particular class of insurance'.²²

Counter to disclosure objectives

4.26 Some stakeholders expressed concern that, for the reasons outlined above, a comparison service for home, strata and car insurance would be counter to current industry initiatives to enhance the transparency of general insurance, such as that underway with regard to product disclosure practices.²³

4.27 For example, IAG submitted that it:

...remains concerned that an independent comparison service for home, strata and car insurance would misdirect focus and resources from the drivers of premiums and further emphasise price, working against the objectives of transparency and disclosure.²⁴

4.28 Along the same lines, Financial Rights suggested that an independent comparison service would not be of value if established under the current disclosure and regulatory frameworks, stating that:

...the way general insurance exists now has too many inherent problems that a comparison website could not tackle—things like unfair terms exemptions and the fact there is no standard cover and there are no standard terms...Until we have more standard terms, standard cover and unfair terms protections, I think any comparison website that you create would put consumers in a risky position where they think, 'All these products are the same because they've been lined up right next to each other,' when in fact they are not the same at all.²⁵

Non-standardised financial products

4.29 Several submitters argued an independent comparison service would be neither appropriate nor effective as a tool for comparing home, strata and car insurance because these are non-standardised financial products.

4.30 The risk-based nature of general insurance makes it a complex financial product, with policies varying widely depending on consumers' specific needs as well as insurers' underwriting models. Additionally, as considered in the previous chapter, the definitions for insurance terms differ across the industry. This means that a comparison service would not be comparing general insurance products on a like-for-like basis, therefore limiting consumers' ability to make informed purchase decisions.²⁶

22 Allianz, *Submission 4*, p. 21.

23 Insurance Council of Australia, *Submission 13*, p. 30.

24 IAG, *Submission 15*, p. 4.

25 Ms Alexandra Kelly, Principal Solicitor, Financial Rights Legal Centre, *Proof Committee Hansard*, 12 April 2017, p. 18.

26 See, for example, Australian Securities and Investments Commission, *Submission 22*, p. 20; QBE, *Submission 16*, p. 16; IAG, *Submission 15*, p. 31; iSelect, *Submission 6*, p. 2.

4.31 ASIC discussed this point in its submission:

Some financial products are inherently more suited than others to effective comparison through a comparison service. The utility and consumer benefit of the comparison will depend among other things on the complexity of the features of the particular product.

It is easier to ensure that comparison services are effective for products that have fewer key variables or where price is in fact the best determinant of choice—for example, credit cards or compulsory third party (CTP) green slip insurance, where the terms are largely standardised—and that allow information about price to be easily weighed against other features that consumers may value.

Conversely, where products are more complex with a wide range of interconnected features, such as with home, car and strata insurance, care needs to be taken that comparison sites do not over-simplify the decision making process due to inadequate information.²⁷

4.32 QBE concurred with this assessment, contending that 'for a comparison service to be both workable and effective, it needs to be comparing the same things'. QBE further submitted that 'where independent comparison services do exist, they tend to do so in an environment involving standardised products with regulatory oversight of pricing'.²⁸

4.33 When questioned by the committee about whether there is room in the general insurance market for an independent comparison service, Mr Michael Saadat from ASIC remarked that 'yes, I guess there is room in the market for that'. However, Mr Saadat also cautioned the committee that it is not as straightforward to establish a comparison service for home and car insurance as it is for financial products where pricing itself is regulated, such as private health or CTP insurance, because:

...private health insurance and CTP insurance are regulated in a much more prescriptive way than car and home insurance. The products are standardised and the pricing itself is regulated, which is not a feature of home and car insurance. For private health insurance, the prices are set annually. It is much easier to compare private health insurance than it is to compare home and car insurance, which is a product where the price is set in a completely different way. To the extent that a website could be set up, as we point to in our submission, there is a number of things that would need to be considered and addressed before that happened.²⁹

4.34 Ms Emma King, Chief Executive Officer of the Victorian Council of Social Service (VCOSS), also expressed reservations about the suitability of an independent comparison service for general insurance, commenting that:

27 Australian Securities and Investments Commission, *Submission 22*, p. 20.

28 QBE, *Submission 16*, p. 16.

29 Mr Michael Saadat, Senior Executive Leader—Deposit Takers, Credit and Insurers; Regional Commissioner—New South Wales, Australian Securities and Investments Commission, *Proof Committee Hansard*, 12 April 2017, p. 71.

One of the issues that we have at the moment when looking at comparator websites and looking at insurance and the complexity of different insurance policies is that we do not believe a comparator website would be comparing apples with apples. The products and offerings that are present would be very difficult to navigate through on a comparator website.³⁰

Rating system

4.35 Mr Gerard Brody from the Consumer Action Law Centre (Consumer Action) suggested that a comparison service model that focused on the quality of product features, rather than just price, could go some way to addressing the challenges posed by the non-standardised nature of general insurance. For example, Mr Brody suggested that:

...a comparator site could assess product features based on a star rating system. That way people could know that there were comparing a \$2,000 apple with a \$2,000 apple, not a \$2,000 apple with a \$3,000 radish.³¹

4.36 Mr Rolfe also expressed support for a comparison service for home and car insurance that compared products based on a rating system, contending that 'a rating system goes closer to finding value'.³²

4.37 However, Ms Alexandra Kelly from Financial Rights made the point that a rating system would not address the issue of consumers purchasing insurance that may not be suitable to their needs:

A rating system assumes that we all want five-star cover. It does not address the suitability issue, which is that I might lead a one-star life. I do not need top cover to cover me, because I want something that is cheap, quick and gets me through some basic things. I do not need top cover. That is my concern about a rating system. The rating system does not address the suitability issue. What is suitable for my individual circumstances? Is this going to be rated as five-star for me, or is it just five-star generally and I need to identify if I lead a one-star life or a five-star life?³³

Implementation challenges

4.38 In addition to the challenges posed by the non-standardised nature of general insurance products, some submitters argued that there would be substantial implementation challenges to establishing an independent comparison service for home, strata and car insurance.

4.39 QBE made the point that the set-up and ongoing compliance costs of a mandatory, independent comparison service would be considerable, with consequent

30 *Proof Committee Hansard*, 13 April 2017, p. 20.

31 Mr Gerard Brody, Chief Executive Officer, Consumer Action Law Centre, *Proof Committee Hansard*, 13 April 2017, p. 7.

32 Mr John Rolfe, private capacity, *Proof Committee Hansard*, 12 April 2017, p. 4.

33 Ms Alexandra Kelly, Principal Solicitor, Financial Rights Legal Centre, *Proof Committee Hansard*, 12 April 2017, p. 19.

longer term impacts on consumers and the economy. Elaborating on this point, QBE submitted that:

A mandatory comparison service would place further pressure on insurer profitability and ultimately may see capital currently invested in the sector seek more stable and less volatile returns, with consequent longer term impacts for consumers and for the economy.³⁴

4.40 IAG urged the committee to consider the technological investment that would be required if a mandated comparison service were introduced, explaining that:

In order to be transparent and accurate, a comparative service would require not only the capability to receive specified data from every home, strata and car insurer in Australia, but for that information to be updated on a regular basis so as not to mislead consumers. It is not known the extent that each general insurer offering the insurance subject to this Inquiry would have to upgrade or change their IT systems to have this level of functionality. IAG would speculate that it would be of significant cost to all insurers to build functionality and maintain the data provision required.³⁵

4.41 Similarly, Mr Michael Keyte from iSelect noted the ongoing investment that would be required by government to ensure that product information was up to date:

...there is an ongoing investment required as the insurers release new products or change their PDSs or look at the underwriting differently. The types of information that would need to get presented evolves consistently. So, whilst there is a one-off investment cost, it is actually an ongoing commitment. Once you get into it, you cannot stop. I think that would need to be considered.³⁶

4.42 Some submitters also questioned whether it would be possible to establish a comparison service for strata insurance products. For example, Mrs Margaret Shaw reasoned that strata properties are too diverse for a comparison service to be feasible for strata insurance.³⁷ Allianz concurred with this view, submitting that:

Allianz does not believe it is technically or practically possible to establish a comparison site for residential strata insurance...With limited exceptions, strata insurance is a commercial insurance product that is manually underwritten with the premium and cover tailored to the needs of each specific strata property. It is not possible to automatically generate a premium for the purposes of comparison by a strata manager/owner answering a limited number of questions on a price comparison site.³⁸

34 QBE, *Submission 16*, p. 14.

35 IAG, *Submission 15*, p. 31.

36 Mr Michael Keyte, Group Executive, Life and General Insurance, iSelect, *Proof Committee Hansard*, 13 April 2017, p. 35.

37 Mrs Margaret Shaw, private capacity, *Proof Committee Hansard*, 13 April 2017, p. 12.

38 Allianz, *Submission 4*, p. 1.

The UK experience

4.43 Many of the concerns raised by submitters regarding the potentially harmful effects of an independent comparison service on consumer and industry outcomes stemmed from the experience of commercial comparison websites in the United Kingdom.

4.44 The use of commercial comparison websites in the UK has grown steadily over the past 10 to 15 years, becoming a key distribution channel for retail classes of general insurance. A large number of general insurance products, particularly car insurance, are purchased through the online platforms. Consumer research carried out in 2014 suggested that up to 68 per cent of UK consumers purchasing car insurance used comparison websites.³⁹

4.45 There are four key comparison website operators in the UK insurance market as well as a number of smaller operators. Some of these comparison websites are owned by insurance companies and most are paid via commissions on a 'pay per click' business model.⁴⁰

4.46 There are no independent, government-run comparison services for general insurance products operating in the UK.

4.47 The ICA contended that the introduction of commercial comparison services in the UK has led to the market becoming increasingly commoditised:

Following the introduction of PCWs in the UK car and home insurance markets, insurance product offerings have become more and more commoditised, focusing on price over policy features. This is particularly the case in the UK car insurance market. The introduction of PCWs significantly changed the distribution of car insurance, contributing to what is now a low value commodity market, with insurers responding to consumer demand through PCWs to compete mainly on price.⁴¹

4.48 Allianz expressed a similar view, noting its own negative experience participating in comparison websites in the UK car insurance market:

Allianz has had the experience of participating in commercial comparison sites for motor insurance in other countries, such as the UK. The UK experience was wholly unsatisfactory. The inevitable focus by consumers on price over the suitability of insurance cover saw the quality of insurance products and customer service levels fall as insurers sought to cut costs. Even despite this, participation became unprofitable and, as a result, Allianz withdrew from retail comparison sites in the UK.⁴²

4.49 Consumer research has generally agreed with industry concerns regarding the effect of comparison services on consumer outcomes. For example, in July 2014, the

39 Australian Securities and Investments Commission, *Submission 22*, p. 16.

40 Australian Securities and Investments Commission, *Submission 22*, p. 17.

41 Insurance Council of Australia, *Submission 13*, p. 27.

42 Allianz, *Submission 4*, p. 22.

Financial Conduct Authority (FCA) conducted a thematic review of PWCs in the UK's general insurance sector. The review found that while consumers generally value comparison websites as a tool 'to compare products in a simple and accessible way', there are risks that comparison websites 'may not provide appropriate information to allow consumers to make informed decisions'. The review also noted concerns 'that consumers' focus on headline price and brand when using PCWs could distract from crucial product features such as policy coverage and terms'.⁴³

4.50 A purported benefit of comparison services is a lowering of premiums by encouraging increased price competition between insurers. ASIC noted that while there is no public data on the effect of comparison websites on insurance premiums in the UK, they 'are generally regarded as having significantly increased consumer price sensitivity, and as such contributed to greater price competition'.⁴⁴

4.51 Conversely, the ICA submitted that increased price competition 'has not been the case in the UK'. The ICA contended that, according to the longest running UK motor premium index, 'during the period that PCWs were introduced (from 2000 to 2006), car insurance premiums remained relatively flat'.⁴⁵

Existing independent comparison services

4.52 There are a number of independent comparison services operating in Australia and in international jurisdictions. The scope, sophistication and extent of insurer participation in these comparison services is highly varied.

Finansportalen—Norway

4.53 Established in 2008, Finansportalen is a comparison website that aims to encourage consumer awareness of the different financial services products available, including insurance, and make it easier to compare and switch between providers. The website is administered by the Consumer Council of Norway, a Norwegian government agency and consumer protection organisation. Since January 2013, all insurers have been required under legislation to disclose information, including pricing information, to Finansportalen.⁴⁶

4.54 Unlike other insurance comparison services operating in the private and public sectors, Finansportalen provides consumers with accurate quotes direct from insurers, and the consumer is able to purchase insurance products via the website.⁴⁷ The World Bank's 2013 report on public-sector operated comparison websites

43 Financial Conduct Authority, *Price comparison websites in the general insurance sector*, July 2014, p. 3, as cited in Australian Securities and Investments Commission, *Submission 22*, p. 17.

44 Australian Securities and Investments Commission, *Submission 22*, p. 18.

45 Insurance Council of Australia, *Submission 13*, p. 26.

46 Insurance Council of Australia, *Submission 13*, p. 25; QBE, *Submission 16*, p. 12.

47 Insurance Council of Australia, *Submission 13*, p. 25; QBE, *Submission 16*, p. 12.

assessed Finansportalen as being highly sophisticated with 'advanced product-selection tools with a high degree of interactivity and user guidance'.⁴⁸

4.55 ASIC summarised how Finansportalen operates in practice:

On the website, users enter data by responding to prompts. The information is then sent to all companies offering the service in question. Those companies respond to the specific request with a price. Finansportalen collects all of the responses and then presents them to the user.⁴⁹

4.56 QBE observed that 'the consumer response to Finansportalen appears to have been muted', citing a 2016 survey into 'changing frequencies and the use of public digital comparison services'.⁵⁰ As stated by QBE:

...a 2016 survey of 2,031 consumers shows limited use of Finansportalen for insurance comparison or switching purposes, with consumers continuing to rely predominantly on insurance companies for insurance pricing and switching services. Specifically, while 25 percent of respondents moved or renegotiated their car insurance and 21 percent changed their house insurance in 2015, only 11 percent used price calculators or price lists in the process (including five percent who used Finansportalen) and 73 percent either contacted the insurance company, visited the website of the insurer, or were contacted by the seller or the insurance company.⁵¹

California Department of Insurance—California, United States

4.57 The California Department of Insurance (CDI) operates an online comparison tool where consumers can compare estimated annual premiums for various types of insurance, including home and car insurance. The comparison tool prompts consumers to select from a limited number of predefined options. The tool then displays estimated annual premiums from multiple insurance providers. Consumers are not able to purchase insurance through the website. However, the website lists contact details for insurers so that consumers can contact providers directly to obtain an accurate quote.⁵²

4.58 Licenced insurers in California are mandated by law to provide their annual premiums and the CDI is required to publish the information online. However, the use

48 World Bank, *Public Sector-operated Price-comparison Websites: Case Studies and Good Practices*, 2013, p. 28.

49 Australian Securities and Investments Commission, *Submission 22*, p. 19.

50 QBE, *Submission 16*, p. 12.

51 TNS Gallup for Consumer Council of Norway, *Change habits of Norwegians—financial services: Changing frequencies and the use of public digital comparison services*, January 2016, p. 6, as cited in QBE, *Submission 16*, p. 12. See also, Insurance Council of Australia, *Submission 13*, p. 25.

52 Australian Securities and Investments Commission, *Submission 22*, p. 19; Insurance Council of Australia, *Submission 13*, p. 26.

of an online comparison tool to present premium information is relatively recent, with the service only being established in May 2015.⁵³

4.59 As noted by ASIC, due to the recent introduction of the CDI comparison tool, data is not available to compare premiums from before and after the introduction of the website.⁵⁴ However, the ICA did note the findings of a 2016 study into car insurance rates which found that California had the seventh highest average car insurance premium in 2016' and that 'this was 32.2 per cent higher than the national average'.⁵⁵

Competition and Consumer Protection Commission—Ireland

4.60 The Competition and Consumer Protection Commission (CCPC) in Ireland is an independent statutory body with responsibility for enforcing competition and consumer protection laws. In their submission to the inquiry, Professors Fels and Cousins described a price comparison tool operated by the CCPC for home and motor insurance.

4.61 With regard to the CCPC's home insurance comparison tool, Professors Fels and Cousins explained that:

The CCPC's website contains reference to a home insurance survey. The survey is based on various profiles developed by the CCPC which differ in terms of the location, sum insured, excess and so forth.⁵⁶

4.62 Consumers are able to select the profile (see table 4.1) that is most similar to their own circumstances in order to view and compare quotes offered by various insurers for that profile.

Table 4.1—Examples of CCPC home profiles⁵⁷

Profile 1	My home is a 3-bedroomed bungalow in Midleton, Co. Cork. The rebuilding cost is €200 000 and the contents are worth €50 000.
Profile 3	My home is a rented 1-bedroomed apartment in Balbriggan, Co. Dublin. I require contents insurance of €8000.
Profile 5	My home is a 2-bedroomed house in Limerick City. The rebuilding cost is €10 000 and the contents are worth €20 000.
Profile 7	My home is a 4-bedroomed semi-detached house in Cabinteely, Dublin 18. The rebuilding cost is €230 000 and the contents are worth €70 000.

53 Australian Securities and Investments Commission, *Submission 22*, p. 19.

54 Australian Securities and Investments Commission, *Submission 22*, p. 19.

55 Insure.com, *Car insurance rates by state, 2016 edition*, <http://www.insure.com/car-insurance/car-insurance-rates.html>, as cited in Insurance Council of Australia, *Submission 13*, p. 26.

56 Professor Allan Fels AO and Professor David Cousins AM, *Submission 23*, p. 13.

57 Professor Allan Fels AO and Professor David Cousins AM, *Submission 23*, pp. 13–14.

4.63 Professor Cousins characterised the CCPC comparison model as a 'much more simplified approach', further suggesting that 'it is an approach you might adopt first and then might move over time to something like the Norwegian model'.⁵⁸

4.64 The committee notes that this model is similar to a proposal made in the FSI Interim Report as a policy option regarding aggregator access to information:

Another option could be to develop representative consumer categories based on key consumer characteristics. Insurers could disclose their policy premia for each category and consumers could then, potentially with the assistance of aggregator services, compare premiums from different insurers for the category that best represents their characteristics.⁵⁹

4.65 The FSI Interim Report also commented on the challenges of such a model:

The difficulty with this option would be developing enough categories so the majority of consumers fall within a category, while not creating too many categories, which could create complexity for consumers and compliance costs for insurers.⁶⁰

Private Health Insurance Ombudsman comparison tool

4.66 While health insurance is not a form of general insurance, a number of submitters commented on the Private Health Insurance Ombudsman comparison tool as one example of an independent comparison service operating in Australia.

4.67 Introduced in 2007 and administered by the Private Health Insurance Ombudsman (PHIO), privatehealth.gov.au allows consumers to enter some basic details online and obtain a list of health insurance policies which may match their needs. The website 'aims to foster competition in the industry by helping consumers compare and choose health insurance policies'.⁶¹

4.68 Data for the PHIO comparison tool is derived from Standard Information Statements, a summary of key product features as required under the *Private Health Insurance Act 2007*. Standard Information Statements for all private health insurance policies available in Australia are published on the website. The website also provides information on the performance of each insurer, including coverage relative to industry results and the share of PHIO complaints compared to the fund's market share.

4.69 Usage of privatehealth.gov.au has increased annually since it was established, with almost 1.2 million unique visitors in 2015–16.⁶²

58 Professor David Cousins AM, private capacity, *Proof Committee Hansard*, 13 April 2017, p. 5.

59 Financial System Inquiry, *Interim Report*, July 2014, p. 2-40.

60 Financial System Inquiry, *Interim Report*, July 2014, p. 2-40.

61 Commonwealth Ombudsman, *Private Health Insurance Ombudsman: State of the Health Funds Report 2016*, p. 8.

62 Commonwealth Ombudsman, *Private Health Insurance Ombudsman: State of the Health Funds Report 2016*, p. 8.

4.70 Submitters expressed mixed opinions regarding the PHIO comparison tool. Mr Rolfe proposed that the PHIO comparison tool 'is an excellent template for a government-run general insurance comparison service' as it 'encourages users to compare value, not just price'.⁶³

4.71 However, Suncorp made the point that while the PHIO comparison tool 'does attempt to compare a mix of features, regulated health insurance premiums mean price-based shopping is less of a concern'.⁶⁴

4.72 Consumer Action queried the effectiveness of the PHIO comparison tool, submitting that:

...despite the government's health insurance comparator site being well-established, the underlying complexity and inconsistency in policies means that the site does not enable people to easily and accurately choose the right policies for their needs.⁶⁵

North Queensland home insurance website

4.73 The North Queensland home insurance (NQHI) comparison website was launched in March 2015 following a considered government consultation process. The website, which is administered by ASIC, was established in response to the high cost of home insurance in North Queensland. Many insurers restrict or do not provide insurance in certain locations in North Queensland due to the high risk of natural catastrophe.⁶⁶

4.74 The NQHI website operates to provide consumers with:

- indicative price range estimates based on assumed risk profiles (rather than live quotes based on a consumer's individual circumstances and linked to insurers' databases); and
- a summary of policy features, rather than a full description of product features, conditions, exclusions benefits, caps, and limits.⁶⁷

4.75 The website emphasises that consumers should consider a policy's features and not just focus on price alone, and encourages consumers to contact insurers directly for actual quotes specific to their circumstances.⁶⁸

4.76 With regard to the NQHI website's usage, ASIC noted that 'for the period of 31 March 2015 to 31 December 2016, the website had 13 356 sessions'.⁶⁹

63 Mr John Rolfe, *Submission 1*, [p. 7].

64 Suncorp, *Submission 14*, p. 13.

65 Consumer Action Law Centre, *Submission 5*, p. 4.

66 Australian Securities and Investments Commission, *Submission 22*, pp. 22–23.

67 Australian Securities and Investments Commission, *Submission 22*, p. 23.

68 Australian Securities and Investments Commission, *Submission 22*, p. 23.

69 Australian Securities and Investments Commission, *Submission 22*, p. 23.

4.77 Some inquiry participants were critical of the NQHI website, suggesting that it is of limited usefulness to consumers and has had little to no effect with regard to competition or premium pricing in the North Queensland market. For example, Mr Dallas Booth from NIBA commented that 'the information coming to me from our members in North Queensland is that the ASIC site has made no difference at all'.⁷⁰

4.78 Financial Rights supported this view, also noting that there has been no review of the effectiveness of the website since its introduction:

The NQHI website has not been met with much enthusiasm from insurers or consumers, nor has it seemingly created more competition in the market for home insurance in Northern Queensland. The website has been running for almost two years but there is no public data on whether it has had any effect on the cost of home insurance in North Queensland, whether levels of un-insurance and underinsurance have dropped, or whether consumers in that area find the comparison website useful.⁷¹

4.79 Mrs Shaw proposed that a review of the NQHI website should be undertaken before consideration is given to the establishment of an independent comparison service for home, strata and car insurance, submitting that:

I suggest a proper assessment of the website implemented by Warren Entsch MP for North Queensland be done, identify why it isn't working, how to make it work, and establish if such a website will ever work, prior to spending money on another one.⁷²

4.80 Professor David Cousins suggested that the objectives behind the NQHI website may have been misdirected in the sense that it does not address the underlying issue of the risk posed by natural catastrophe events in North Queensland:

It is really important to be clear on what the objectives of these things are. A comparator has been set up, for example, covering North Queensland, where there is concern about cyclones and high premiums. I do not personally think that a comparator is much use in that situation. It is not dealing with the major problem, which is mitigating the effect of cyclones.⁷³

4.81 The role of disaster mitigation with regard to general insurance is discussed in chapter 5.

Concerns regarding commercial comparators

4.82 In examining the role that comparison services play with regard to general insurance, the committee heard concerns about commercial comparison websites currently operating in Australia. Several inquiry participants were critical of the

70 Mr Dallas Booth, Chief Executive Officer, National Insurance Brokers Association of Australia, *Proof Committee Hansard*, 12 April 2017, p. 15.

71 Financial Rights Legal Centre, *Submission 9*, p. 22.

72 Mrs Margaret Shaw, *Submission 21*, p. 30.

73 Professor David Cousins AM, private capacity, *Proof Committee Hansard*, 13 April 2017, p. 2.

transparency of information presented to consumers on commercial comparison websites.

Disclosure of commercial relationships

4.83 One issue raised with regard to the operation of commercial comparison websites was the level of disclosure of commercial factors, such as ownership structures and commissions received, that could be viewed by consumers as having the potential to bias the comparisons provided.

4.84 Mr Rolfe made the point that some commercial comparison websites are ultimately owned by the same parent company as insurers, with a large proportion of their own brands offered on the sites. For example, as observed by Mr Rolfe:

...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.⁷⁴

4.85 Several inquiry participants agreed that commercial relationships should be clearly disclosed to consumers upfront when purchasing insurance through a commercial comparison website.⁷⁵ The ACCC also shared this view, commenting that 'we think it is quite important that there be appropriate disclosure of any commercial ownership or commercial factors that an ordinary consumer would expect to be made aware of'.⁷⁶

4.86 The committee questioned representatives from iSelect, the operator of an independent commercial comparison service, about whether commission arrangements with its partners have the potential to bias sales processes or consumer purchasing decisions. iSelect emphasised that products offered to a consumer through its website are based on a needs analysis and are not influenced by the level of commission associated with particular products.⁷⁷ iSelect further commented that:

We have a very transparent approach with the expert sales staff. They do not know the commissions that we make with our partners because we want to ensure there is zero bias in their discussions.⁷⁸

74 Mr John Rolfe, *Submission 1*, [p. 4].

75 See *Proof Committee Hansard*, 12 April 2017, pp. 6, 48, 58.

76 Mr Nicholas Heys, Deputy General Manager, Enforcement Coordination, Australian Competition and Consumer Commission, *Proof Committee Hansard*, 13 April 2017, p. 45.

77 Mr Michael Keyte, Group Executive, Life and General Insurance, iSelect, *Proof Committee Hansard*, 13 April 2017, p. 40.

78 Mr David Christie, Chief Administrative Officer, iSelect, *Proof Committee Hansard*, 13 April 2017, p. 34.

4.87 Similarly, Compare the Market made the following claim in its supplementary submission to the inquiry:

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.⁷⁹

Market coverage

4.88 The breadth of the general insurance market covered by commercial comparison services was also raised as an issue of concern. For example, Ms Erin Turner from CHOICE observed that some commercial comparison websites 'certainly imply that they compare the whole market, and they clearly do not'.⁸⁰

4.89 Mr Rolfe supported this view, noting that Australia's four largest insurers—IAG, Suncorp, QBE and Allianz—do not offer their general insurance products on any commercial comparison site.⁸¹

4.90 Suncorp outlined the reasoning behind its choice not to participate in commercial comparison services operating in Australia, explaining that 'Suncorp has fundamental concerns about the operation of the sites and the accuracy of the information being presented to consumers'.⁸² Similarly, Allianz commented that:

Allianz chooses not to participate in commercial comparison sites in Australia. They charge a fee for their service and therefore impose an unnecessary additional distribution cost that would need to be passed on to our customers in the form of higher premiums. Comparison sites also dilute the brand and business relationship Allianz seeks to build with its policyholders.⁸³

4.91 Compare the Market acknowledged that it does not compare product offerings from all insurers, commenting that 'given the non-participation of the largest general insurers, our car and home insurance supplier panels are narrower than for other products we offer'. However, Compare the Market also stressed that:

...this 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

79 Compare the Market, *Supplementary Submission 3.1*, [p. 3].

80 Ms Erin Turner, Head of Campaigns and Policy, CHOICE, *Proof Committee Hansard*, 12 April 2017, p. 22.

81 Mr John Rolfe, *Submission 1*, [p. 4].

82 Suncorp, *Submission 14*, p. 16.

83 Allianz, *Submission 4*, p. 2.

more regularly than that we touch base with them informally, extending them an invitation to participate on our website.⁸⁴

Adherence to ACCC guidelines

4.92 Consumer Action shared the above concerns regarding existing commercial comparison services, submitting that 'at worst, commercial comparison sites are simply sales channels which mislead people and generate high commissions'. However, Consumer Action also submitted that in complex markets, such as insurance, effective comparison services 'can help guide consumers through product comparison, highlight key product features and pitfalls and explain the range of options available'.⁸⁵

4.93 In relation to this, Consumer Action noted its support for the ACCC's 'guide for comparator website operators and suppliers' (see paragraph 2.30), but expressed concern that these guidelines are not currently complied with by commercial comparison providers. Consumer Action contended that 'if there are to be commercial comparison services in the marketplace then they should be required to comply with the standards laid out in that guidance'.⁸⁶

Committee view

4.94 The committee notes the divergent views expressed by stakeholders on the costs and benefits of insurance comparison services on consumer outcomes and on the operation of the insurance industry as a whole. The committee also acknowledges the strong concerns raised regarding any proposal to establish an independent comparison service for home, strata and car insurance in Australia; in particular, the risk that such a service could lead to consumers focusing on product price rather than value.

4.95 The committee is inclined to agree with the view that the utility of an independent insurance comparison service could be hindered by deficiencies in the current product disclosure regime and associated regulatory frameworks. However, the committee does see benefit in considering a more simplified insurance comparison tool, such as that operated by the CCPC in Ireland.

Recommendation 8

4.96 The committee recommends that the government complete a detailed proposal for a comparison tool for home and car insurance, consistent with the proposal made in the FSI Interim Report and similar to the structure of the Irish model. The proposal should include a detailed evaluation of the international evidence base of the costs and benefits of comparison services on consumer outcomes, as well as the likely benefits in the Australian context.

84 Compare the Market, *Supplementary Submission 3.1*, [p. 6].

85 Consumer Action Law Centre, *Submission 5*, pp. 5–6.

86 Mr Gerard Brody, Chief Executive Officer, Consumer Action Law Centre, *Proof Committee Hansard*, 13 April 2017, p. 8.

4.97 The committee is concerned that the North Queensland home insurance website may not be achieving its intended objectives. Given the significant establishment and running costs, the committee believes that it is timely a thorough review of the website's effectiveness be undertaken.

Recommendation 9

4.98 The committee recommends that the Australian Securities and Investments Commission undertake a comprehensive review of the efficacy of the North Queensland home insurance website.

4.99 With regard to commercial comparison websites, the committee is concerned that a lack of transparency about commercial relationships and market coverage could be potentially misleading and to the detriment of consumers. In light of this, the committee sees benefit in mandating the ACCC's good practice guidelines for comparison websites.

Recommendation 10

4.100 The committee recommends that the government consider introducing legislation to mandate compliance with the ACCC's good practice guidance for comparison website operators and suppliers.