

31 March 2015

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Financial System and Services Division  
The Treasury  
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## Final Report of the Financial System Inquiry

Dear Mr Crawford

Insurance Australia Group Limited (IAG) welcomes the opportunity to make a submission to the Final Report of the Financial System Inquiry.

IAG is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand and Vietnam, employing more than 15,000 people. Its businesses collect over \$11 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC, Swann, WFI and Lumley Insurance (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); and AAA Assurance (Vietnam). IAG also has interests in general insurance joint ventures in Malaysia, India and China.

IAG in principle supports the general intent of the Final Report. IAG believes the report reflects a genuine understanding of the factors that influence insurance pricing and affordability. In particular IAG welcomes Recommendations 19 and 23 relating to data access and more innovative forms of disclosure. Reforms in these areas are closely tied to our ability to fulfil Recommendation 26 relating to guidance and disclosure in general insurance. IAG has commenced activities to leverage recent developments in technology and behavioural research. There is a clear competitive advantage in enhancing customer understanding of insurance and IAG urges the Government to ensure regulation allows and encourages progress to improve consumer outcomes.

IAG acknowledges the concerns that have prompted Recommendation 21 (strengthening product issuer and distributor accountability) and Recommendation 22 (introducing product intervention power). While noting that these recommendations are not specific to the insurance sector, IAG would like to continue working cooperatively with ASIC to strengthen consumer protections, particularly in relation to the distribution of consumer credit insurance. However, IAG cautions against broad

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based additional regulation in the insurance sector that may unintentionally disadvantage marginal groups or stifle innovation.

IAG's submission predominantly discusses the recommendations specific to the general insurance industry on guidance and disclosure. It also provides responses to recommendations of the Final Report that we believe have implications for the general insurance industry. In addition, IAG endorses the content and sentiment of the submission made by the Insurance Council of Australia.

If you have any queries regarding this submission please contact David Wellfare, Senior Manager, Public Policy & Industry Affairs on (02) 9292 8593.

Yours sincerely

A handwritten signature in black ink that reads "Nick Hawkins". The signature is written in a cursive style with a large, sweeping initial "N" and "H".

**Nick Hawkins**  
**Chief Financial Officer**



# FINAL REPORT OF THE FINANCIAL SYSTEM INQUIRY



31 March 2015

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# GUIDANCE AND DISCLOSURE

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## Regulatory Obligations

The Final Report highlighted concerns about the shortcomings of the current disclosure regime. It concluded that disclosure remains a relevant and important component in the financial system regulatory architecture. As such, the Final Report recommended ongoing review and improvement to the disclosure regime to ensure that it is effective in meeting consumer needs.

As outlined in its submissions to the Inquiry, IAG recognises that there is potential to improve the current disclosure and advice regime in the general insurance context with the aim of helping consumers better understand products. IAG supports the general insurance sector, in partnership with government and consumers, developing proposals for modernising disclosure and advice in a way that is tailored for general insurance. Insurers have a role in assisting consumers to understand the cover they need and educating consumers about risk, and IAG is continually exploring new and more effective ways of doing this.

Government can support this objective with reforms to streamline the existing framework to avoid unnecessary duplication and overlap of obligations. As noted in IAG's submissions to the Financial System Inquiry, general insurers are subject to both the broader corporate regulatory regime that applies to Australian incorporated businesses generally and industry or product specific legislation and regulation. The sector has also established a strong self-regulatory system built around the General Insurance Code of Practice and the external dispute resolution mechanism administered by the Financial Ombudsman Service.

Greater access to government natural perils data and building codes information is also integral to improving guidance and disclosure in the general insurance context.

The best approach to reform is to continue working with Government, regulators and consumer groups to shape industry practices to ensure fair treatment of customers. Better outcomes are likely to be achieved by continuing with a constructive and collaborative approach to reform rather than with a prescriptive regulatory regime that may lead to unintended consequences.

## Commercial Incentives and Considerations

Aside from regulatory obligations, changed market conditions in the general insurance industry have created a strong motivation to improve customer guidance. Changing consumer expectations combined with the increasing price competitiveness of the general insurance market is a key challenge facing insurers. An increase in the number of competitors in the market place, growing use of digital channels and the rising cost of insurance is producing an increased focus on price. Empowered, informed and price focused customers are increasingly challenging the value that insurers are providing.

The Association of British Insurers<sup>1</sup> identified the reputation of the insurance industry as one of its biggest challenges. The relative ease with which customers can shop around and switch policies, and the powerful impact of social media gives insurance companies a strong incentive to keep their customers happy and to maintain their reputation.

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<sup>1</sup> *Identifying the Challenges of a Changing World*, Association of British Insurers, 2013

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# GUIDANCE AND DISCLOSURE (CONTINUED)

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People often lose sight of what insurance does for them, and therefore insurers need to consider how they influence their customers' perception of value

KPMG General Insurance Review 2014

In the wake of recent natural disasters the performance of insurance companies has been placed in the spotlight. Flooding, and more recently bushfires have exposed some misunderstandings about coverage and misconceptions about how insurers price. The insurance industry is open to constructive suggestions as to how it can better meet the needs of its stakeholders. In particular, insurers see an opportunity to build the trust of our customers by harnessing emerging technologies and the growing field of behavioural economics now available to improve the way we communicate with our customers. Big data, more sophisticated perils information and customer insights have the potential to transform the insurance experience.

*'Long-term market success begins with stronger, deeper customer relationships. All products, operations and investments must be evaluated in terms of their impacts on customer engagement.'*

Ernst & Young Global Consumer Insurance Survey 2014

The findings from the Ernst & Young Global Consumer Insurance Survey<sup>2</sup> make it clear that consumers want more frequent, meaningful and personalised communications from their insurance providers. The survey found that there are large "communication gaps" between what customers want and what they currently receive. IAG is acutely aware that customer engagement and satisfaction is critical to future commercial success. IAG cautions against regulation that has the potential to unduly inhibit this progress.

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<sup>2</sup> <http://www.ey.com/GL/en/Industries/Financial-Services/Insurance/ey-2014-global-customer-insurance-survey>

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# RECOMMENDATIONS RELATING TO GUIDANCE AND DISCLOSURE

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IAG has been working for some time now on ways to improve guidance and disclosure for our direct customers. In our intermediated business IAG provides ongoing support to brokers, authorised representatives and other business partners (who deal directly with the customer) via education resources, regular newsletters, webinars and risk information sheets to ensure they are equipped with accurate and up to date information. In the intermediated market IAG provides access to tools and calculators via CGU's 'Broker Portal'.

## 1. Product Disclosure Statements and Other Customer Documents

The Final Report recommended the '*general insurance industry should complete its work on improving disclosure in insurance product disclosure documents, including consumer testing, and providing information at the appropriate point in the sales process*' (Recommendation 26).

Research showing that the majority of consumers do not read the Product Disclosure Statement (PDS) has been broadly canvassed in the submissions to the Financial System Inquiry. Internal customer research by IAG confirms that many personal lines customers have a poor understanding of general insurance. IAG consumer testing indicates that customers scan rather than read their Certificate of Insurance, Renewal and Amendment documents focusing on key figures while ignoring the bulk of the text.

Current forms of disclosure can be improved. IAG recently commissioned Deloitte to conduct an extensive review of IAG's customer communication documents in IAG's Personal Insurance business. While recommendations are yet to be completed, preliminary findings indicate current documents, while complying with our legal obligations, can be enhanced to provide customers with digestible and accessible information about their policies. IAG is also investigating delivery of a visual and audio PDS. There are insurers that already provide such innovative forms of disclosure. For example, New Zealand insurer Lantern Insurance offers YouTube videos that explain the cover and benefits of the policy<sup>3</sup>.

Central to better forms of disclosure will be regulatory reform to enable a less cautious more customer-centric model. IAG considers Recommendation 23 to '*Remove regulatory impediments to innovative product disclosure and communication with consumers*' will support this approach. However, a review of the disclosure obligations on insurers generally will be necessary to facilitate effective modernisation of disclosure.

ASIC's proposals in Consultation Paper 224 *Facilitating Electronic Financial Services Disclosures* revealed the challenges of the overlapping disclosure obligations that govern the insurance industry. ASIC has identified that technological advances provide the opportunity to consider more innovative, and potentially better, ways of making financial product disclosures. However insurers will not be able to take advantage of these proposals as they are limited to providing relief or guidance in relation to disclosure requirements contained in the *Corporations Act 2001*. Insurers' disclosure requirements are not only set out in the *Corporations Act 2001*, but also the *Insurance Contracts Act 1984*.

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<sup>3</sup> <https://www.youtube.com/watch?v=rulxWv4uPAo>

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# RECOMMENDATIONS RELATING TO GUIDANCE AND DISCLOSURE (CONTINUED)

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IAG proposed several options in its submissions to the Financial System Inquiry to modernise disclosure including:

- A regime similar to the shorter, simpler PDSs currently required for superannuation products simple managed investment schemes, and standard margin lending facilities;
- A modified version of the Key Fact Sheet (summarising the cover – benefits, exclusions, pre-existing, cooling off period etc) that can be used for a broader range of products and where the ‘key’ content is determined according to a risk assessment of which matters are statistically most likely to be of concern to consumers; and
- A layered approach where information is provided to meet different needs that a consumer would expect to have at different points in their engagement cycle (decision-making and post-purchase). This could then be supported with generic product information provided by the insurer via its website or links to other resources.

IAG believes the ICA Disclosure Taskforce is an appropriate forum to discuss our customer experience and knowledge with relevant stakeholders to work through these issues and develop a more efficient regulatory framework for disclosure.

## 2. Guidance and Advice

IAG believes an overall review of the application of the current regulatory advice model to general insurance is necessary to ensure customers are equipped with the right information to enable appropriate decision making when purchasing insurance. The current model as applied to general insurance does not support more informed consumers and may exacerbate problems such as underinsurance.

IAG believes an appropriate model would enable insurers to deliver superior customer service and reduce the risk of consumers purchasing insurance that does not meet their individual needs. IAG has considered integrating advice into IAG’s Personal Insurance business model. However the cost of developing the requisite systems and ongoing monitoring processes to comply with regulatory requirements has been a deterrent to adopting this approach. The uncertain Corporations Act boundary between what is factual information, personal and general advice has also been a barrier to providing more tailored information to consumers about their policies.

As an alternative, IAG has attempted to offer greater assistance to consumers within the confines of the existing financial regulations. IAG’s NRMA Insurance business has introduced a new framework to better assist customers which involves supporting and skilling employees to find out more about how customer’s assets are a part of their lifestyle, and help customers make a decision that meets their needs. This however has involved extensive staff training and carefully constructed scripts to ensure that regulatory requirements are met.

To some extent this approach satisfies the Final Report suggestion that *‘Insurers could also incorporate elements of the key facts sheet when giving information, guidance and advice over the phone and online’*, as well as ASIC’s ‘good practice observations’ in ASIC Report 415 Review of the Sale of Home Insurance.

IAG committed substantial resources to develop this sales model and ensure that it complied with the relevant regulation. However, IAG customers would still benefit from a more straight forward approach to delivering information. A change in the regulations could encourage an industry wide shift in this direction and ensure consumers are sufficiently informed.



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# RECOMMENDATIONS RELATING TO GUIDANCE AND DISCLOSURE (CONTINUED)

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The nature of the current regulatory framework deters provision of advice due to the ambiguity, restrictions and training requirements of the existing regulation. It is hoped that the ICA's cross-sector taskforce on disclosure will develop recommendations that government can consider as potential solutions to this issue.

### **3. Tools and Calculators for Home Insurance**

The Final Report has recommended the general insurance industry should enhance existing tools and calculators for home insurance. IAG has projects underway to improve our approach to communicating premium changes and guidance about rebuilding costs, changes to building codes and individual risk exposures. Options being explored to enhance tools and calculators include:

- The provision of additional information during customer conversations or when using the online calculators to provide context around the role of the sum insured calculator to increase understanding of the importance of insuring for the correct amount,
- Incentives to encourage use of the calculator by customers who are currently underinsured; and
- Ensuring sum insured calculators are embedded into our processes across all brands.

### **4. Rebuilding Costs**

The Final Report recommends insurers provide customers with up-to-date information about building costs and building code changes. The Inquiry has identified the lack of knowledge of new building laws and regulations implemented by state and local government as a significant factor in home building underinsurance. In the event that a home is destroyed in a natural disaster such as a bushfire or a flood, any replacement building must also comply with codes and regulations. This adds significant additional cost to rebuilding, particularly in areas vulnerable to natural hazards and extreme weather.

State and local governments are responsible for administering and communicating building regulations in accordance with the Building Code and planning and building by-laws. The processes governing rating of properties can be difficult to navigate and information on building codes is not readily available or accessible to individuals or insurers. These laws and regulations differ depending on state and geographic location. As such, for home owners, it is often a difficult and complex process determining what building laws and regulations apply to their property. Furthermore, there is often no clear information available to residents about the cost of compliance with these codes and regulations.

There is an overlap of responsibilities that requires partnership and collaboration between government and insurers to ensure customers have access to accurate and consistent risk information. The Productivity Commission Inquiry into Natural Disaster Funding - Draft Report recommended collaboration between state and territory governments, local governments and insurers to inform households of the risks that they face and the adequacy of their insurance to fully cover rebuilding costs.<sup>4</sup>

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<sup>4</sup> Productivity Commission Inquiry into Natural Disaster Funding - Draft Report Volume 1, September 2014 page 42

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# RECOMMENDATIONS RELATING TO GUIDANCE AND DISCLOSURE (CONTINUED)

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The current system makes it difficult not only for home owners but stakeholders such as insurers to understand the potential risk. Subsequently IAG's response to this problem is restricted to the provision of generic information on building codes and directing customers to the source of information.

Changes planned to increase customer awareness of building codes within IAG's Personal Insurance business include:

- Provision of links to the Building Codes of Australia online;
- Messaging to encourage checking with local council for local requirements;
- Explanations of how building regulations/ codes can impact sum insured amounts; and
- Employee education to enable staff to direct customers to the relevant resources.

## **Blue Mountains Bushfires**

Ineffective communication of building code changes was a contributor to some home owners in the Blue Mountains finding they were underinsured after their homes were damaged or destroyed in the October 2013 fires.

Under current NSW regulations property owners are not required to assess a property's Bushfire Attack Level (BAL) - which then determines the building construction requirements they must comply with – unless they are seeking to build or redevelop a property. In many cases this will only happen after a bushfire event which has destroyed or severely damaged their home. Obviously this is too late to take out additional insurance to cover these extra costs. While homeowners may voluntarily undertake a BAL assessment this is infrequent given the cost involved. Further, completed BAL ratings are not published by state or local government nor are they disclosed to future purchasers.

Following the Blue Mountains bushfire, IAG put in place additional measures to further safeguard customers against the risk of underinsurance. An additional question on distance to vegetation was incorporated into online sum insured calculators (and is gradually being integrated throughout our systems), direct sales staff were provided with additional training on the risk of underinsurance and a marketing campaign under the NRMA Insurance brand was implemented to encourage customers to check their sum insured and use the on line calculators.

IAG Commercial Insurance responded with a BAL webinar for our intermediated business partners hosted by CGU. The Webinar detailed case studies and information on BAL Calculations in an easy to understand format. The Webinar went out to over 250 brokers and authorised representatives all over Australia in October 2014.

As a way to further assist partners in conveying the links between BAL and Underinsurance, CGU created the BAL Resource Centre which includes a link to the recording of the webinar, links to the BAL rating calculators, forecasts, contact lists for relevant state authorities and FAQ<sup>5</sup>.

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<sup>5</sup> <http://www.cgu.com.au/insurance/For-Advisers/Insights/November-Insights/Make-sure-your-customers-are-aware-of-bushfire-risk>

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# RECOMMENDATIONS RELATING TO GUIDANCE AND DISCLOSURE (CONTINUED)

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## 5. Natural Perils Risk Information

Implicit in the Final Report recommendations is an extension of disclosure responsibilities to include information on individual exposure to natural hazards. The Productivity Commission in its Review into Natural Disaster Funding Arrangements called for insurers to bear some responsibility for disclosing the nature of risks that an insured may face and the insurer's assessment of that risk. These recommendations have been reiterated by ASIC in the 2014 Report on the Sale of Home Insurance, and by the Victorian Fire Services Levy Monitor<sup>6</sup>.

A regulatory response to this emerging issue may be premature. Insurers see a clear opportunity for competitive positioning in utilising this information.

### a) Access to Data

ASIC has recommended insurers highlight *'whether a consumer is considered to be in a disaster-prone area or an area of increased risk for natural peril, based on their address details'*<sup>7</sup>. These recommendations present challenges when nationally consistent natural disaster information is unavailable. Where insurers have access to the same data as those who are responsible for mapping and managing the impact of extreme weather events such as flood, insurers can help educate the community on the risk they have. When insurers are not able to use the most up to date and accurate information available there is greater potential for confusion and scepticism in the community about the impact of natural hazards, and subsequently the need for insurance cover.

Access to natural perils risk information in usable data formats can make consumer choices easier. Similarly, access to property building code assessments would enable insurers to provide more accurate guidance to consumers on rebuilding costs.

IAG as part of the Australian Business Roundtable for Disaster Resilience & Safer Communities believes the key to better understanding impacts of natural perils is the availability of accurate, current data and relevant research. Therefore IAG agrees with the Financial System Inquiry Report that:

*"Government should commission the Productivity Commission to commence, by the end of 2015, an inquiry into the costs and benefits of increasing access to and improving the use of data, subject to privacy considerations";*

and

*"Increasing access to data could enhance consumer outcomes, better inform decision making, and facilitate greater efficiency and innovation in the financial system and the broader economy but could also involve privacy risks."*

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<sup>6</sup> <http://www.firelevymonitor.vic.gov.au/home/news+and+information/publications/publication+shining+a+light>

<sup>7</sup> ASIC Report 415 Review of the Sale of Home Insurance

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# RECOMMENDATIONS RELATING TO GUIDANCE AND DISCLOSURE (CONTINUED)

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## b) Innovation of New Products and Tools to Manage Risk

The ability of insurers to understand risk at an individual level has improved dramatically over the past 10 to 15 years. Technological advances have contributed to insurers' being able to price more accurately to reflect risk. The impact of improved access to data, advances in scientific research and digital modelling has been particularly important in understanding natural hazards and other catastrophic risk.

As collecting and storing data has become more efficient and cost-effective, insurers can examine data on the characteristics of policy-holders' risk and their surroundings. Critical statistical and other information such as claims data has been digitised and is more easily integrated into pricing. This has enabled insurers to develop fast, efficient and accurate pricing systems that enable consumers to access dynamic quotes through their preferred contact channel (online, on the phone or in person).

With the technology now available to insurers they can process and analyse data in unprecedented volumes at unparalleled speeds. It is only a matter of time before insurers begin to compete by utilising this knowledge to offer customers value adding risk management information.

Clearly such changes require significant resources and investment. IAG's customer research shows that customers respond to flexible tools which offer actionable information that result in immediate benefit. Globally, some insurers (such as United States insurer Allstate) are already providing interactive tools to assist customers with calculating their sum insured and to mitigate their risk. IAG is currently exploring the viability of similar approaches in Australia.

### Allstate Insurance

- The Allstate Insurance website is an example of how data and technology can be used to integrate the information and financial tools needed to make an individualized and informed decision.
- Among these helpful tools, All State has a 'Premium Gauge' that helps customers to gain a better understanding of what factors influence their premium and what elements lower or raise it. This tool helps customers in making a well-informed decision of what coverage is right for them.
- Allstate's website also offers individually tailored, personalised information –not just insurance specific – such as maintenance reminders for customers who are exposed to hailstorms

The Allstate GoodHome Tool allows consumers to explore risks to their home or potential new home and provides information about how to better protect it.

It also includes information on most frequent claims in an areas as well as information about things like the age of the property and average energy use.

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<sup>8</sup> <http://theallstategoodhome.com/>

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# RECOMMENDATIONS RELATING TO GUIDANCE AND DISCLOSURE (CONTINUED)

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## c) Community Education

The Final Report states that the *'existing framework relies heavily on disclosure, financial advice and financial literacy'*. In contrast to traditional financial literacy - which serves to educate consumers on product features - in the general insurance context, community education on natural perils risks is essential to ensure informed purchasing decisions for home insurance.

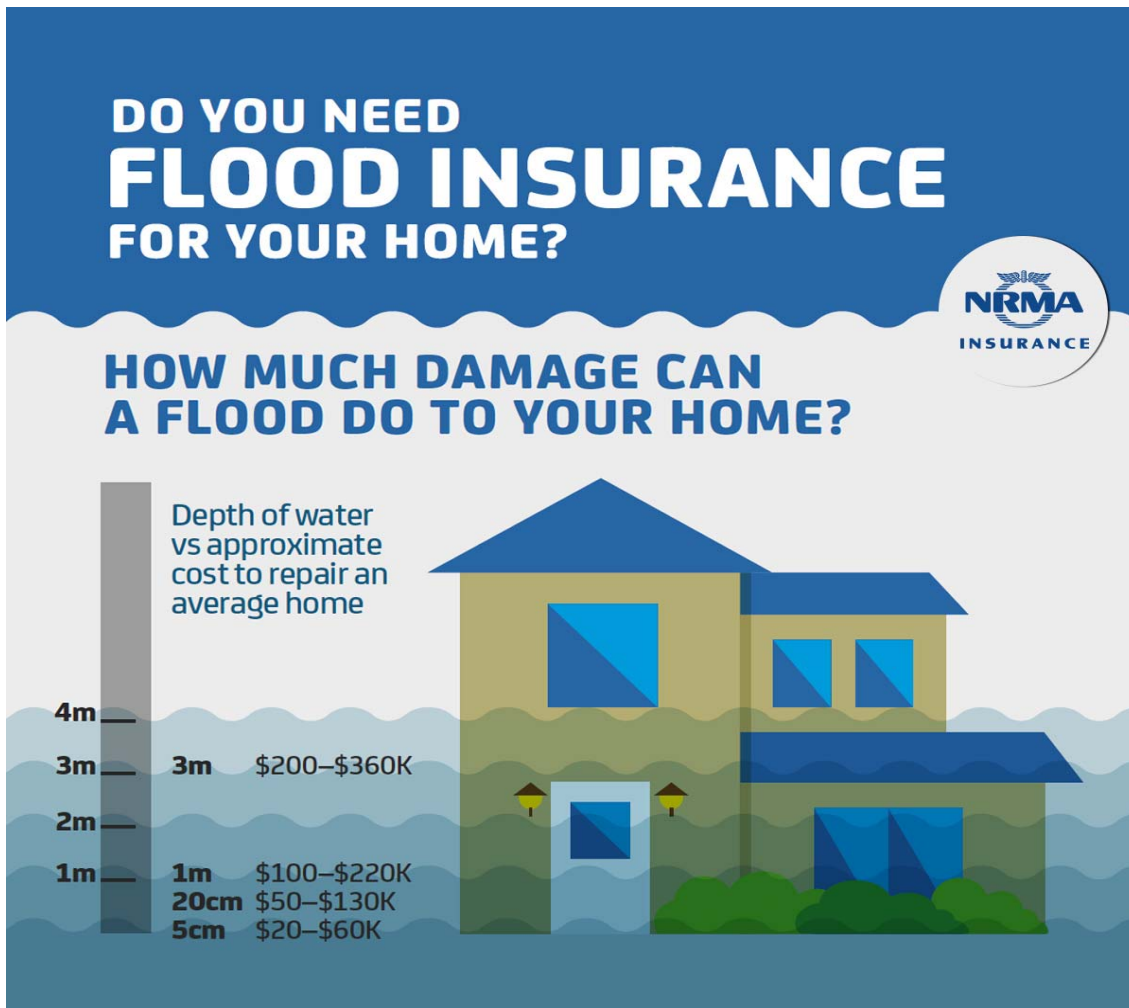
Education is seen as a critical component of most resilience building strategies. One of the five priorities for action of the Hyogo Framework for Action (International Strategy for Disaster Reduction, 2005) is using *'knowledge, innovation and education to build a culture of safety and resilience'*. An important component of COAG's National Strategy for Disaster Resilience (COAG, 2011) includes *'communicating with and educating people about risks'*.

IAG believes broader communication to raise awareness of natural perils risk is critical to support the provision of risk information by insurers and address the problem of underinsurance. IAG has led the industry in delivering insurance education initiatives including YouTube videos, community seminars and a web-based learning resource for high school students on disaster preparedness and insurance through the Australian Financial Review on-line platform.

Cross-sectoral platforms such as disaster risk reduction task forces or networks can promote a collaborative process for the creation, implementation and dissemination of risk awareness and risk reduction education programs and strategies. This was the impetus behind IAG's collaboration with Investa Property Group, Munich Re, Optus, Australian Red Cross, and Westpac Group, to form the Australian Business Roundtable for Disaster Resilience and Safer Communities. IAG has also partnered with a number of organisations to deliver community risk information including the Floodplain Management Authority (FMA), NSW State Emergency Service (SES), Sydney University and the Queensland Government.

IAG has been exploring various approaches to improve understanding of natural perils risks. IAG's NRMA Insurance recently developed an infographic on flood that is available on the NRMA Insurance website and distributed to our community partners.

# RECOMMENDATIONS RELATING TO GUIDANCE AND DISCLOSURE (CONTINUED)



**Figure 1:** NRMA Insurance Flood Infographic (<http://www.nrma.com.au/do-you-need-flood-insurance>)

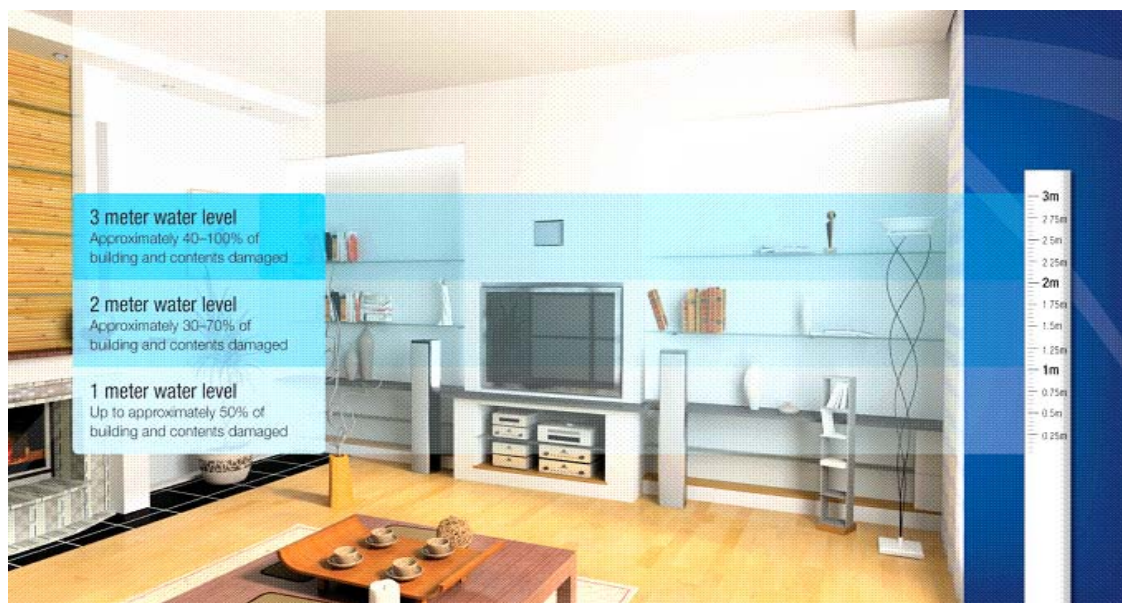
IAG Commercial Insurance offers a number of training resources to brokers including newsletters, webinars and risk information sheets to support and educate our distributor<sup>9</sup>.

<sup>9</sup> <http://www.cgu.com.au/insurance/For-Advisers>

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# RECOMMENDATIONS RELATING TO GUIDANCE AND DISCLOSURE (CONTINUED)

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**Figure 2:** CGU broker training resource

## 6. Understanding Customer Needs

The Final Report notes that disclosure can be ineffective and recommends an obligation that would require product issuers and distributors to consider a range of factors when designing products and distribution strategies. In addition to commercial considerations, issuers and distributors should consider the type of consumer whose financial needs would be addressed by buying the product and the channel best suited to distributing the product. The Final Report also raises the possibility of product intervention powers for financial services. IAG considers that such provisions are not warranted or applicable to general insurance as insurance products are substantially different to other financial products.

IAG has invested considerably in understanding our customers' needs. Many private companies have a dedicated customer insights team that conducts research on the wants and needs of their customers. At times there can be contradictory messages on what regulators and consumer advocates ask for and what customers say they actually want. IAG considers that the market is the most effective mechanism to ensure product suitability.

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# RECOMMENDATIONS RELATING TO GUIDANCE AND DISCLOSURE (CONTINUED)

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## **IAG's Customer Research**

IAG's Personal Insurance use ethnographic research techniques to undertake behavioural research with customers - this research is used to guide the design of products and services to innovate and better meet the needs of customers- particularly the presentation of information in ways which customers find easy to understand and relevant. The focus is on creating an integrated experience which offers customers easy strategies that guide informed insurance decisions.

IAG has been integrating practices throughout the organisation to ensure the customer's perspective and desires are built into the way we design and deliver projects. IAG has adopted a 'human centred design' (HCD) approach which focuses on end-user behaviours and unmet needs as the impetus for innovation rather than traditional drivers such as internal expertise or technological change.

The Customer Experience Insight and Design team apply HCD to understanding and developing solutions to specifically improve the experience for IAG's customers. Using HCD processes the team have developed a comprehensive understanding of IAG's customers insurance research, purchasing and maintenance behaviours, needs and goals which are now informing improved guidance through conversation, document, digital and product design.

If there is to be a move towards greater insurer accountability for product design, IAG believes there will be challenges in defining the typical consumer that a product should be aimed at. Customer 'needs' in the general insurance space is a subjective concept as customers may have different needs depending on a variety of factors including things such as where they live, the value of what they are insuring and what they can afford. Therefore any regulatory test based on 'customers needs' could be problematic.

For example, many of the recommendations relating to home insurance are motivated by a concern about underinsurance. Although this approach is best for the majority of consumers, IAG's work in understanding insurance affordability issues has demonstrated that for some people, some insurance may be better than none. This is especially the case for low-income households that are currently excluded from the insurance market.

IAG's customer research indicates that consumers want more choice and control in their decision making. In other words, they want to be provided with the resources and information to help them make a decision. While it is important to prevent inadvertent underinsurance, consumers should have the freedom to make informed decisions about the level of risk they are willing to assume. IAG's research indicates that both high income consumers (who believe they have sufficient resources to cover the risk if the worst should happen) and low income earners (who have competing priorities) may prefer this option.

Insurers should be able to offer minimal key cover type policies for customers who cannot afford more expensive 'bells and whistles' type cover. There will always be tension between product features and affordability. The alternative is that certain customers may be priced out of the market and left uninsured.



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# RECOMMENDATIONS RELATING TO GUIDANCE AND DISCLOSURE (CONTINUED)

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Consumer Credit Insurance (CCI) has been specifically noted in the Final Report in relation to these recommendations. IAG has been working co-operatively with ASIC and well as partners and distributors to implement ASIC's recommendations<sup>10</sup> to improve consumer outcomes in this area. Where there are areas where consumer protections remain to be strengthened, we are willing to continue work with the regulator to review product features, sales practices and controls to ensure the suitability of products to meet client needs. IAG has many experiences where CCI products have helped people with their mortgage and car repayments in times of illness and death. Broad based regulation may limit our ability to offer these products and leave customers with a genuine need exposed.

## Funeral Insurance

Funeral insurance has been considered in some sectors as a 'bad' insurance product. However, some communities have a legitimate need for funeral cover. IAG's research with low income earners indicates one of the strongest reasons for having funeral insurance derives from a real fear of leaving a legacy of debt to their friends and family. This insight about this fear and this need demonstrated that funeral insurance can have strong value for some people.

The development of IAG's funeral cover was informed by previous research by ASIC into funeral insurance and the Thirteen Point Consumer Strategy on funeral insurance which identified steps the insurance industry, regulators, governments and consumers can take to reduce the likelihood of financial exploitation from funeral insurance. By using a consultative approach, IAG has developed a fair and equitable insurance product for those who need it.

Recognising the important role funerals play in Aboriginal and Torres Strait Islander culture, as part of our Reconciliation Action Plan IAG will be researching the level of demand for insurance cover, and the viability of offering tailored funeral insurance products to meet the needs of Indigenous communities.

IAG's concern with Recommendations 21 and 22 is the potential for unintended consequences of inhibiting innovative solutions for marginal customer groups. IAG is reassured that the Final Report recognises that product intervention powers may create adverse outcomes in the general insurance market:

*'The Inquiry considered whether introducing standardised or default insurance products would reduce the risk of consumers failing to understand policies' key features and exclusions. On balance, the Inquiry considers the consequent reduction in competition and potential disincentive for innovation does not warrant this kind of response.'*

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<sup>10</sup> Report 256 Consumer credit insurance: A review of sales practices by authorised deposit-taking institutions 2011 and Report 361 Consumer credit insurance policies: Consumers' claims experiences 2013

<sup>11</sup> <http://consumeraction.org.au/wp-content/uploads/2013/08/Funeral-insurance-13-point-plan-FINAL-190813.pdf>

# IAG RESPONSES TO SPECIFIC RECOMMENDATIONS

Recommendation		IAG Response
Recommendation 19	Data access and use	<ul style="list-style-type: none"> <li>IAG supports this recommendation</li> </ul>
Recommendation 21	Strengthen product issuer and distributor accountability	<ul style="list-style-type: none"> <li>IAG does not support this recommendation in the general insurance context</li> </ul>
Recommendation 22	Introduce product intervention power	<ul style="list-style-type: none"> <li>IAG does not support this recommendation in the general insurance context</li> </ul>
Recommendation 23	Facilitate innovative disclosure	<ul style="list-style-type: none"> <li>IAG supports this recommendation in relation to general insurance</li> </ul>
Recommendation 26	Improve guidance and disclosure in general insurance	<ul style="list-style-type: none"> <li>IAG has commenced activities to address these recommendations</li> <li>IAG considers recommendation 19 and 23 if implemented will assist in this area</li> </ul>
Recommendation 27	Regulator accountability	<ul style="list-style-type: none"> <li>IAG agrees that the Government should create a new Financial Regulator Assessment Board to advise Government annually on how financial regulators have implemented their mandates.</li> <li>Industry would also benefit from government setting out more clearly how regulators should interpret their mandates in Statements of Expectation (SOEs) and the increased use of outcomes-focused performance indicators.</li> <li>IAG also believes that the Government should continue to support the Financial Sector Advisory Council (FSAC) as FSAC brings together a range of financial market participants to provide advice to the Government on policies to facilitate the growth of a strong and competitive financial sector. FSAC helps to promote dialogue between the private sector and the Government in support of the development and growth of Australia's financial sector.</li> </ul>
Recommendation 40	Rename 'general advice'	<ul style="list-style-type: none"> <li>IAG supports this recommendation</li> </ul>

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# IAG RESPONSES TO SPECIFIC RECOMMENDATIONS (CONTINUED)

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The general insurance industry, both globally and within Australia is facing a period of profound change. The convergence of technological advances and unprecedented access to data, combined with the digital revolution and changing expectations of consumers has the potential to transform the insurance industry. IAG supports regulation that will facilitate and improve consumer outcomes by encouraging competition, flexibility and innovation in the market. IAG advocates for a co-operative and collaborative approach with regulators to work through the issues we have identified with access to data, disclosure and the provision of advice in the general insurance context.