Submission to the Senate inquiry into Australia's general insurance industry

February 2017

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About QBE

QBE is one of the few Australian-based financial institutions to be operating on a truly global landscape, with operations in and revenue flowing from 37 countries. Listed on the ASX and headquartered in Sydney, organic growth and strategic acquisitions have seen QBE grow to become one of the world's top 20 general insurance and reinsurance companies, with a presence in all key global insurance markets.

As a global insurer, QBE gains insights across a broad range of financial systems and regulatory regimes. These can either enable or impede a competitive and innovative insurance sector that is necessary for the sector to be able to deliver to its customers, communities and governments.

As a member of the QBE Insurance Group, QBE Australia & New Zealand (***QBE***) has been an integral part of the Australian business landscape since its early beginnings in Queensland in 1886, providing peace of mind to Australians during normal business and times of crises.

Within Australia, QBE operates primarily through an intermediated business model that provides all major lines of general insurance cover for personal and commercial risk. We also provide home and motor insurance products directly to the public in all states and territories, although our direct business constitutes a very small part of QBE's portfolio at this time (approximately 4%).

We welcome the opportunity to respond to the Senate Economics References Committee's (***Committee***) inquiry into Australia's general insurance industry (***Inquiry***). QBE has also contributed to and supports the Insurance Council of Australia's (***ICA***) submission to the Inquiry.

For ease of reference, our submission addresses the issues raised in the Inquiry's terms of reference in the order in which they appear and includes an introductory section on general insurance.

Executive summary

A stable and sustainable insurance industry supports economic growth. By pooling and diversifying risk, insurance enables activities to take place that would otherwise be cost-prohibitive, should anything go wrong. Insurance touches many aspects of human activity, providing a safety net that allows resources to be productively deployed with a lower risk of social and economic harm.

Both the collapse in 2001 of Australia's then second-largest insurance company – HIH Insurance (***HIH***) and the global financial crisis (***GFC)*** emphasise the importance of ensuring that Australia's general insurance industry remains robust and sustainable.

Home, motor and strata insurance products enable individuals to mitigate the potentially significant consequences associated with events such as burglaries, house fires, and motor vehicle accidents. These forms of insurance allow people to go about their lives and engage in risky day-to-day activities, such as driving a vehicle, with some peace of mind.

Australia's general insurance industry is competitive. With low barriers to entry, recent years have seen a number of new entrants, further increasing competition.

QBE recognises and supports the Inquiry's aim to increase general consumer information about the availability of insurance and different product offerings. The industry as a whole has commissioned a body of work to examine and improve the transparency of product offerings, noting that there is a fundamental shift occurring in the nature of the industry's relationship with consumers. Consumers are increasingly seeking individualised and technology-based interactions with insurers.

While commercial insurance comparison services currently operate in the Australian market, they are effectively an alternative distribution channel driven by profit. Insurers make decisions about which distribution channels to sell their products through based on a number of factors, including the preferences of their specific customer-base and their value proposition for customers. The ability for insurers to choose their distribution channels supports competition.

Overseas experience demonstrates that comparison services inevitably focus consumers on price instead of product coverage, with the potential to lead to poorer consumer outcomes and, with market exits, a detrimental effect on market competition. The United Kingdom's experience with commercial comparison services for motor insurance, is an example of the negative market and consumer side-effects that can occur.

QBE appreciates that independent comparison services can potentially improve consumer engagement and access to information. As outlined by the World Bank[1], one of the key advantages of public sector comparison services are that they are objective. They can be designed to combine comparison data with complementary financial guidance and educational tools that can increase transparency for consumers, such as budget calculators and consumer protection materials. The World Bank however, also notes that they are most useful for comparing standardised, commoditised products and are less appropriate for sophisticated products[2].

As overseas experience has demonstrated, QBE does not consider that the establishment of a mandatory independent comparison service would operate to effectively improve competition or benefit consumers, particularly for complex insurance products like home and strata insurance. As a home is often a family's most significant investment, the risks of purchasing inadequate or inappropriate cover could be significant and QBE believes that Governments should be wary of market interventions that may have unintended side-effects.

If the Inquiry however, is minded to make a recommendation for an insurance comparison service, suggested ways forward could include the development of an independent product availability service, similar to the ICA's 'Find an Insurer' service. This could provide consumers with a list of general insurers that offer particular products and could also provide financial guidance and educational tools that increase transparency for consumers.

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1. Australia's general insurance industry

What is general insurance?

General insurance provides cover for events that cause financial losses, property damage or personal injury, and does not include life insurance or health insurance. The most common forms of general insurance are home and contents insurance, motor vehicle insurance, business insurance, lenders' mortgage insurance, workers' compensation, and travel insurance.

These products may be taken out by individuals, businesses and governments, and may be purchased either directly from the insurer, or through an intermediary, such as an insurance broker, aggregator or a financial institution.

How does insurance support economic growth?

General insurance plays a critical role in supporting economic growth. By pooling and diversifying risk, insurance enables activities to take place which would otherwise be cost-prohibitive, should anything go wrong. Through risk transfer, insurance liberates economic resources, allowing them to be productively deployed with a lower risk of social and economic harm.

At the household level, insurance enables individuals to shift some or all personal risk, avoiding the potentially significant consequences associated with events such as burglaries, house fires, and motor vehicle accidents. This means that instead of 'saving for a rainy day', families can use their savings to purchase a new car, renovate their home, or invest in shares which, in turn, contributes positively to the overall economy.

For this reason, insurance touches many aspects of human activity, at times providing a safety net not only for individual families and businesses, but also for communities. Over the past decade Australia has been affected by a number of large natural catastrophes and severe weather events, some of which have decimated entire communities. The contribution of the industry in supporting the recovery process following these events has been significant, both through the billions of dollars of claims paid that have helped people rebuild their lives, as well as the evolving role that insurers have played in encouraging risk mitigation by communities and governments.

Why is a stable insurance industry important?

Australian governments, businesses and communities rely heavily on the viability of the insurance industry. Both the HIH collapse and the GFC demonstrated the importance of ensuring a strong, stable and sustainable insurance industry.

Over the past decade, Australia's prudential regulator and the regulatory regime applying to banks, insurers and superannuation funds have been entirely transformed. QBE recognises that the revised regulatory scheme held the industry in good stead during the GFC, and contributed to the Australian economy faring better than many of its overseas counterparts. It is however, important for policy-makers to remain mindful that some forms of regulation can create and impose unnecessary costs.

All regulation should be subject to a rigorous cost-benefit analysis, as additional costs can result in higher prices for consumers and lower shareholder returns. The sustainability of the general insurance industry also relies upon the charging of risk-based premiums, so that insurers are able to collect sufficient premium to cover future claims costs.

In the competitive local and global markets for investment capital, the insurance industry must continue to be an attractive destination that provides adequate commercial returns to its shareholders. The insurance industry must keep its costs competitive and operate as efficiently as possible in an environment that recognises and supports this goal, so that we are not put at a disadvantage compared to other industries competing for investment. In turn, this will enable us to provide suitable and more affordable products for customers.

Home, motor and strata insurance

As this Inquiry is focussed on home, motor and strata insurance, it is important to understand the key features of, and differences between, these three forms of general insurance. We have outlined the key features of these products in the appendix. As strata insurance is a highly specialised product generally sold through intermediaries, a number of the terms of reference for this Inquiry are less relevant to this form of insurance. As such, our comments in this submission focus primarily on home and motor insurance.

2. Considering insurance premiums

How does insurance pricing work?

For insurance to be sustainable, insurers must collect enough premium to cover the cost of claims, internal expenses, acquisition costs (including commissions to intermediaries), reinsurance (insurance for insurers), profit margins (inclusive of the cost of solvency capital), and taxes, levies and stamp duty. These costs are partially offset by investment income from premium held and capital reserves.

When an individual applies for an insurance quote, insurers collect information in order to understand and assess the risk. For home insurance policies, insurers need information about where the property is located, the size of the property to be insured, what it is built from, whether it is occupied, and so on. Similarly, when an individual seeks comprehensive motor insurance, insurers will ask about the model and age of the vehicle, the driving history of the drivers, how the vehicle will be used and other questions that may affect the risk.

This information is fundamental for insurance pricing because individual premiums are calculated based upon a combination of individual circumstances, as well as considering the effect on the insurer's portfolio as a whole.

While many insurers ask similar core questions, the suite of questions that insurers ask is not homogenous across insurers. This information is used in conjunction with external data sources and internal and external proprietary models to assess the risk and determine appropriate pricing. These questions, and the effect that each of them has on risk acceptance and price, varies by insurer. Each insurer's individual methodology forms part of its valuable intellectual property.

How do insurers understand risk?

Insurers are experts at understanding, managing and pricing risk. This is the central tenet of an insurance business.

Sustainable insurance products rely upon an insurer's in depth understanding of the risk being insured. This includes the nature of risk, the probability of the risk involved occurring, the likely loss that would be experienced, and the financial and non-financial environmental factors that may affect the provision of the product in the economic environment.

Insurers use a variety of methods and tools to forecast risk. As technology develops and data becomes more accessible, insurers are able to continually refine and improve their risk assessment processes, the benefits of which are passed on to consumers. An example is the introduction of flood cover which is now generally available, whereas prior to 2011 it was virtually non-existent.

This accumulation of specialist knowledge and associated deep understanding of risk exposure, accurate management, prevention and mitigation generates collaborative knowledge and expertise that can be used for the benefit of society as a whole. For example, the industry and individual insurers have developed a range of tools and information to assist consumers and businesses to prepare for extreme weather events, and governments to identify coastal and flood vulnerability.

Why is risk-based pricing important?

Accurate risk-based pricing is crucial to the sustainability of the insurance industry. Insurers invest a significant amount of time and resources developing models which price risk accurately and provide enough premium to cover the risks that they have assumed.

The price of insurance reflects how an insurer views a particular risk. Risks with a higher level of frequency or severity are allocated a higher price. If the price becomes higher than the customer is willing or able to pay, this is a signal that there may be a need to treat or mitigate the risk, which will in turn bring down the premium. As such, insurance pricing can be a useful consideration in public policy development. If a pricing signal is lost or distorted in any way (for example through cross-subsidisation, or government subsidisation or regulation), risk signals and market information can be impaired or lost.

Market interventions that distort price signals can also create a moral hazard, meaning that the incentive for individuals to sensibly manage their risks is reduced or eliminated. This distortion can also cause the market to lose valuable information that would otherwise have informed risk-reducing behaviour.

Insurance premiums and wage growth

The ICA's submission to the Inquiry provides an analysis of insurance premiums for the relevant products to wage growth over the last decade and concludes that home and strata insurance premiums have on average risen at a greater rate than wage growth over the period, while motor insurance premiums have grown at a slower rate.

While wage growth is a useful measure of affordability, it does not by itself provide any insight as to the broader question of whether home, motor and strata insurance premium increases are justified. It is also important for the Committee to:

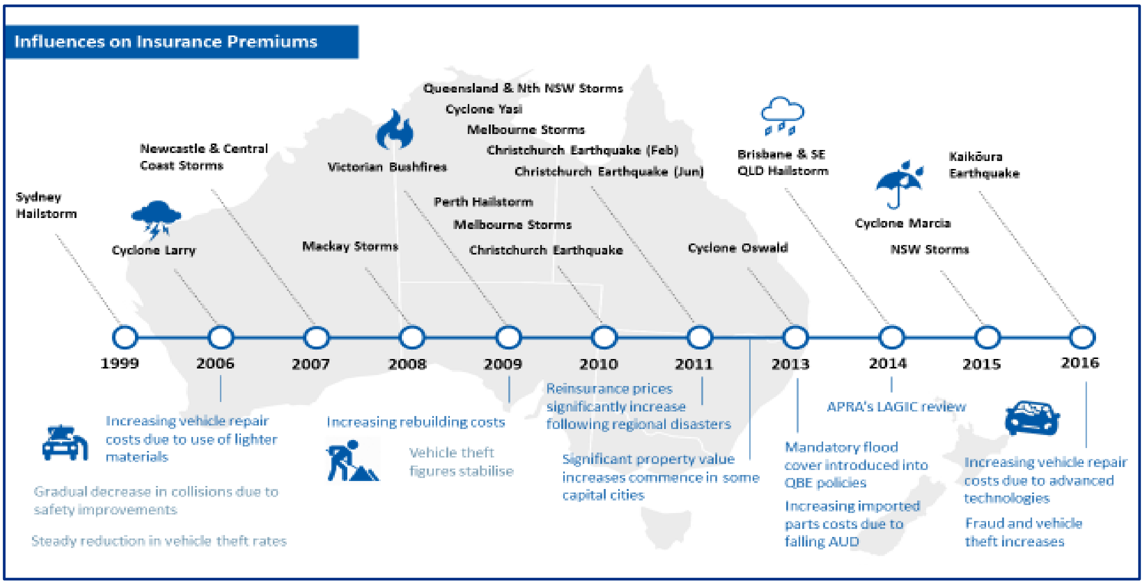
- have an understanding of the factors which have led to increases in insurance premiums over the past decade, and
- consider the profitability of these products for the general insurance industry.

Factors placing pressure on premiums

A number of factors affecting premiums for the relevant products over recent times have been beyond industry control, such as the frequency and severity of severe catastrophic events, the rate of inflation affecting certain components of claims costs, prudential regulatory and capital reforms and the increased incidence of fraud with new technologies.

There are of course also factors that have also led to downward pressure on insurance premiums, such as gradual decreases in motor collisions due to improvements in vehicle technology and road safety, better law enforcement, improved security features, competition from new entrants and disrupters into the market and, more recently, some softening of property reinsurance rates.

The following diagram depicts some of the key factors that have led to movements in insurance premiums in recent times and we elaborate on some of these factors below:



Increasing impact of natural disasters

The economic losses caused by natural and other hazards are rising. In recent times this trend has been exacerbated by the rapid accumulation and aggregation of risk due to urbanisation, the degradation of our natural environment, the development and build-up of infrastructure that occurs as economies grow, technological advances and global convergence. Climate change and increased weather volatility is recognised as a future challenge for all and continued development in areas of high natural peril risk will continue to lead to future losses for both consumers and insurers.

Australia has experienced a large number of significant natural disasters over the past decade, including the Black Saturday bushfires, flooding in Queensland and Victoria, cyclone activity in Queensland and storms along the Eastern seaboard[3]. Between 2000 and 2012 alone, the losses borne by insurers from natural disasters totalled $16.1 billion, an average of over $1.2 billion per year. Without action, according to the Australian Business Roundtable for Disaster Resilience & Safer Communities, the forecast annual cost in real terms of natural disasters (across government, business and communities) in Australia is expected to reach $23 billion by 2050[4].

The impact of these natural catastrophes and severe weather events have led to large increases in overall insurance claim payouts, elevated average claim amounts and higher costs associated with administering claims (including higher reinsurance costs).

As a result of these events, insurers have updated their natural peril data and repriced products to more appropriately reflect the loss experience. This has led to significant premium increases, primarily for sections of the community where disasters are more frequent and costly.

Increasing claims costs

By far, the most significant part of the premium collected by insurers for these products is apportioned to claims costs. As such, the main driver of increased home, motor and strata premiums has been the growth of claims costs. It is important to understand that many of these cost drivers bear no relationship to wage growth but are driven by a variety of external and internal influences.

The surge in natural disasters and severe weather events outlined above results in high claim numbers for insurers which generates strong demand and in turn drives up the costs of labour and materials after these events. When there is a succession of events, prices continue to climb and do not subside. For home insurance, this demand for trades and materials has been exacerbated in recent times by very strong growth in the construction of residential apartment buildings, particularly in Melbourne and Sydney placing further pressure[5] on the building industry's skills and workforce capacity. For example, construction industry wages have experienced an average increase of 3.6 percent per annum over the last 10 years, compared to the overall annual average weekly earnings (***AWE***) growth of 3.1 percent.

Similarly, construction costs[6] over the last 10 years have grown by an average of 3.9 percent per annum over the last 10 years, compared with 3.1 percent AWE annual growth and 2.2 percent Consumer Price Index (***CPI***) growth over the same period.

Home insurance claims costs are also affected by changes to building codes and standards and development rezoning, as often occurs after natural disasters. For example, following Cyclone Yasi, revised requirements for the construction of garage doors in cyclone areas and performance standard requirements for buildings in flood zones were introduced. Similarly, there have been increased building requirements for homes in areas of high bushfire risk. While these changes are positive and will build resilience to future events, they also increase the cost to rebuild, and consequently insurers' claims costs and subsequently, insurance cover.

The growth in the cost of claims for strata properties has been driven largely by the same factors as for home insurance. In particular, the cost of trades and materials has increased significantly, as has the complexity and value of these properties.

Motor insurance premiums are impacted by both the frequency of claims, and average claim costs. The frequency of claims can increase when people choose to drive more, and is often related to petrol prices, the status of the economy, and weather conditions. The cost of these claims also vary by the type of claim. For example, hail storms tend to result in more expensive claims. Economic downturns can also lead to a larger proportion of theft claims, resulting in total losses or unrecovered vehicles.

For motor repair claims, parts now make up the highest component of claims costs. By way of example, the presence of sophisticated safety and electronic technology means that rather than panel beating dents out of a damaged car door, it will now be replaced at a significantly higher cost. This is important when you consider that the size of an average claim for motor insurance is also affected by exchange rates. Many parts are imported, so when the Australian dollar (***AUD***) depreciated from over 1.00 United States dollar (***USD***) down to USD 0.70, the cost of imported parts increased by approximately 43 per cent, which is significantly more than AWE or CPI.

Over time, motor claims experience can also be impacted by changes in the way vehicles are used. By way of example, personal cars are now being used for ride sharing purposes. Experience shows that increased time on the road is likely to increase the risk of being involved in an accident.

Notwithstanding these factors, as outlined in the ICA's submission, premiums for motor insurance have remained relatively flat over the last four years, and indeed lower than AWE inflation. This is due to intense price competition from new entrants who are seeking to gain market share from larger established insurers. As a result, the industry has experienced deteriorating loss ratios and increases in average claims costs, exceeding premium growth.

Increasing value and complexity of assets

As our lifestyles change – so too are our risks. As we have seen, the introduction of technology and 'smart' components in homes and cars is adding complexity and can be expensive to repair or replace.

By way of example, in 2006, the average sum insured or value covered for a home was $242,500. By 2016, this figure had risen to $412,000 – a 70 per cent increase.[7] In capital cities, the increase in value has been more significant. For example, in Sydney in 2006, the median house price was $560,400. In 2016, it was $1,047,600[8].

Similarly, people are now accumulating more and more assets and valuables, so require more contents cover than may have been needed a decade ago.

On renewal of such policies, insurers typically automatically increase by indexation the sums insured for building and contents insurance policies. This assists by reducing the likelihood of underinsurance for consumers and is consistent with the increasing value of assets, however, a higher sum insured will generally attract a higher premium, reflecting the insurer's increased exposure to loss.

Reassessment of risks

Over the past decade, both the insurance industry and governments have invested extensive resources in improving our understanding of natural hazard risk. Significant progress has been made through such initiatives including flood risk databases, flood mitigation studies, and research into the risks posed by cyclones to strata buildings in far North Queensland.

As a result of these developments, insurers now have access to much more granular hazard information, which in many areas reveals risks at the household level. By way of example, QBE has implemented flood and peril rating into its risk assessment and pricing and continues to access evolving external data. This more sophisticated approach benefits the majority of consumers in areas of low or medium to high risk, that may have experienced a reduction in insurance premiums. There are, however, areas where legacy issues exist and the risk is relatively high, for example, some existing developments and strata in far North Queensland and the Nepean basin in New South Wales.

QBE continues to support co-ordination at all levels of government to tackle these complex issues, particularly in relation to land development, risk awareness and mitigation initiatives for exposure to natural peril events for certain areas and risks in Australia.

Unfortunately, state and local governments continue to allow development in areas that are considered high risk flood or bushfire zones with limited risk mitigation strategies required of developers. This increased concentration of people, infrastructure and economic activity in areas exposed to significant natural peril risk is a key driver of increasing loss, particularly when the urbanisation occurs without appropriate mitigation to reduce vulnerability.

Changes to product coverage

Over the past decade underlying product coverage has also evolved, making it difficult to make direct like-for-like comparisons between the premium charged for specific products at different points in time. For example, individual insurers progressively introduced flood cover into home insurance policies after the 2011 Queensland floods. Flood cover is now generally available where it was previously virtually non-existent. Flood cover is additional cover and comes at a cost, which impacts on premiums, particularly for customers in regions with high flood risk.

Regulatory reforms

Over the last decade, it is important to be aware that Australia's prudential and market regulation has undergone significant reforms adding to the costs of operating an insurance business in Australia. For example, in 2015, the Australian Prudential Regulation Authority (***APRA***) introduced pivotal capital reforms for the sector with the implementation of its Life and General Insurance Capital in 2014. Finity Consulting[9] has estimated that this increased capital requirements by two percent for the sector.

Low investment returns

Insurers have also been affected in recent years by ongoing lower than average returns on investments.[10] This is a global phenomenon which commenced during the GFC, but continues today.

This has been exacerbated by a number of factors including regulatory changes to the amount of capital required for certain investments. When capital requirements increase, a higher price needs to be charged to manage the prudential capital obligations of an insurer and to provide an adequate return to investors. Lower interest rates reduce the return on investments, leaving less capital available to pay claims which then places upwards pressure on underwriting performance.

As noted by Finity Consulting '*investment returns are at record lows, which means profitability from underwriting operations is more important than ever – yet is getting harder to achieve'.*[11]

High global reinsurance costs

Over the last decade, significant claims costs resulting from severe natural disasters, both in Australia and globally, have led to increased reinsurance prices. It is important to understand that Australian insurers diversify their risk by accessing the global reinsurance market. As such, global events can impact locally, causing a spike in pricing across all regions.

Reinsurance costs rose from 2011 following a series of catastrophic losses. Domestically, this included the effects of various east coast lows including Tropical Cyclone Yasi. Regionally, prices were affected by floods in Thailand, and earthquakes in Japan and New Zealand. Reinsurance prices have reduced more recently given the relatively benign recent catastrophe experience.

Strata buildings can range in size from small duplexes through to office towers with replacement values in excess of $100 million. Consequently, some strata portfolios have a high reinsurance cost component compared with home and motor portfolios. The pricing for very large strata portfolios will be more vulnerable to increases in reinsurance costs, particularly if they have a concentration of risks in a particular location, or are located in catastrophe-prone areas.

Insurance taxes, levies and stamp duty

Also significantly impacting insurance premiums for consumers are insurance taxes, levies and stamp duty that are collected by insurers at both the federal, state and territory level. These imposts add significantly to the cost of insurance premiums and are calculated and levied after the base insurance premium is determined. This has a compounding effect on any increase that may have occurred to the base premium.

Insurance taxes have long been recognised as an inequitable and inefficient form of taxation which reduce insurance affordability and exacerbate broader societal issues of non and under insurance. The Commonwealth Government's Henry Taxation Review recommended that all specific taxes on insurance premiums should be abolished.[12]

Financial performance and profitability

The overall financial position and profitability of the general insurance industry is a measure of whether the industry's pricing is justified. If the industry is earning a reasonable return on its capital, this indicates that pricing reflects the underlying costs of providing insurance.

The ICA submission contains a detailed analysis of industry performance which is based on data published by APRA. This analysis shows that relative to long term averages, overall industry financial performance has diminished in recent years. The ICA's analysis of industry performance is consistent with the findings of the 2016 Pendulum Report, co-authored by Finity Consulting and Deutsche Bank.[13] This report found that the general insurance industry's financial outlook was satisfactory but not strong, due to a number of factors including lower investment returns and continuing low premium growth.

From QBE's perspective, returns on capital for home, motor and strata insurance have been below targeted returns in recent times so even small changes in claims costs and expenses for these insurance products can result in volatile or unfavourable profitability for insurers.

3. Competition in Australia's general insurance industry

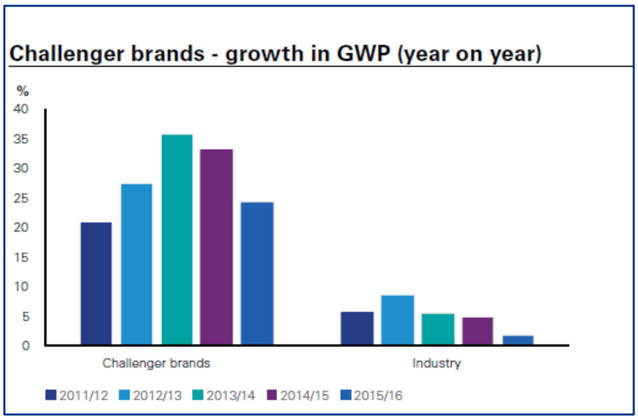
Australia has a robust system of legislative and regulatory market oversight designed to ensure that productive enterprise is carried out in a competitive environment.

Released in July 2014, the Interim Report of the Australian Government's Financial System Inquiry (***FSI***) considered the level of competition within the general insurance industry. The Interim Report noted that few submissions to the Inquiry raised concerns about competition in the insurance sector.

The FSI found that while the personal lines market for general insurance is concentrated, competition can still be strong between players in a concentrated market, as market concentration can be a by-product of competition if more efficient firms grow at the expense of their less efficient counterparts.[14]

The Interim Report also noted that some market trends were moving in the opposite direction – that is away from market concentration – and that a number of new insurers, banks and retailers had entered the market. New entrants include Auto and General (2006), Calliden (2008), Youi (2009), Progressive (2009), and Avea (2010). Competition has also been enhanced through the introduction of new product offerings from other industries, including banks and retailers, and an increase in the number of brand choices available to consumers.

As noted by KPMG in its recent *General Insurance Industry Review, 2016*, challenger brands over recent years continue to provide significant competition. As the graphic shows, these challenger brands are demonstrating much stronger growth than the industry[15].



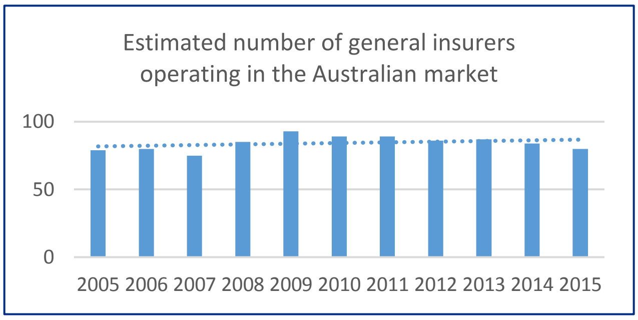
Unlike some other financial products, it is relatively easy for consumers to switch to a different home or motor insurance provider. These policies are generally short term and require annual renewal. Consumers can also cancel their policies at any point and obtain a pro-rata refund.

More and more insurers are utilising digital capabilities to connect to customers and build their brand and customer value propositions via digital, social and technological platforms. As a consequence, consumers can easily obtain alternative quotes from other insurers, with many companies, including QBE, offering self-service quoting tools online that are accessible at all times of the day and night.

Insurance brokers and similar intermediaries also drive and support greater competition in the market. Insurance brokers help consumers to understand their risks and navigate insurance solutions appropriate for their needs. They offer detailed technical expertise including knowledge of and access to insurance markets, prices, terms and conditions, benefits and pitfalls of the wide range of insurance policies available on the market.

Industry participation

An analysis of APRA data reveals that there are currently 80 licensed insurers operating in the Australian general insurance market (excluding those in run off).[16] This number has remained relatively constant over the past decade, following substantial insurer consolidation through the 1990s and early 2000s.



Notwithstanding the relatively static numbers of licensed insurers, in its 2015 Annual Report, APRA similarly indicated that a number of new entrants, particularly APRA authorised subsidiaries and branches of foreign insurers have entered the personal and commercial lines markets over the past decade, offsetting the general trend towards consolidation and adding to the level of competition[17].

Brand differentiation

In addition to new market entrants, there has been a significant increase in the number of brands on offer, each targeting a different customer segment. Brand offerings compete fiercely for business in the general insurance market, as is evidenced by the significant sums that insurance companies spend on advertising and marketing each year. This trend has allowed consumers to exercise greater choice in terms of features available, coverage, price and purchase method.

Brand health research conducted by QBE in 2016 shows that in New South Wales (***NSW***) alone, the consumers who participated in the research could collectively recall over 33 different insurance brands. The average Australian consumer can recall between seven and nine insurance brands, and most consumers will consider between two and three product offerings before making a final purchase decision.

Competition laws and regulatory oversight

Australia has a strong system of market oversight, underpinned by the Commonwealth *Competition and Consumer Act 2010*, and overseen by a national competition regulator, the Australian Competition and Consumer Commission (***ACCC***).

The ACCC oversees mergers between insurance companies in order to assess whether proposed mergers will be detrimental to market competitiveness. The ACCC has also demonstrated a willingness to intervene in the insurance market to address concerns about unreasonable commercial practices, market failure, or price increases.[18]

The ICA, in its submission to the Inquiry conducted a general assessment of the level of concentration in the general insurance market using the Herfindahl-Hirschman index (***HHI)***[19]. That analysis indicated that under the ACCC's 2008 Merger Guidelines[20], the ACCC will be generally less likely to identify horizontal competition concerns when the post-merger HHI is either (a) less than 2000 or (b) greater than 2000 with a "delta" (i.e. the change in market concentration as a result of the merger) of less than 100. The ICA has estimated that the HHI for the general insurance industry is around 740, significantly less than the benchmark outlined for concern by the ACCC's merger guidelines.

4. Transparency of home, motor and strata policy coverage

A new paradigm

Across the world, consumers are increasingly looking for more information, choice, autonomy and speed in their interactions with suppliers of goods and services. The prevalent use of the Internet, interactive digital mobile technology and social networks are revolutionising the way consumers are informing themselves, wielding purchasing power and influencing policy outcomes.

In this context, it is not surprising that there is a fundamental shift occurring in the nature of the insurance industry's relationship with its customers, and the way insurance is bought and sold. With greater access to information through technology and social networks, traditional distribution models are evolving as consumer behaviour changes.

As insurance is interwoven through all parts of our economic and social activities, QBE recognises these structural shifts are driving the future of its own business and the insurance industry as a whole.

In brief, we see the following changes occurring today:

- increasing use of portable devices by consumers, allowing insurers to connect more effectively with consumers;
- online insurance purchasing and claims lodgement;
- use of digital media and marketing influences through that medium;
- demand for more relevant, convenient and cost efficient products and experiences with bundled offerings and multi-policy discounts;
- direct customers have the propensity to change their behaviours relating to insurance – using different channels, buying online, with a predisposition to switching; and
- demand for greater service, more effective communication, and prompt issues and complaint resolution.

QBE believes that consumer reforms in the past decade have generally benefited both consumers and the insurance industry, increasing consumer understanding of insurance through improved transparency and disclosure of information about insurance products. However, consumer protection regulation must keep pace with advancing technology to enable the insurance industry to meet evolving consumer expectations. If the industry is prohibited from employing new technologies, efficiency gains are impeded to the detriment of all parties.

By way of example, until relatively recently insurers in Australia were prohibited from delivering notices (such as renewal invitations and cancellation notices) electronically. This example demonstrates the risks associated with outdated regulation. More significantly, it also creates the impression for consumers that the insurance industry is lagging behind, when in fact it is impeded by restrictive and outdated regulation.

Financial services disclosure regime

Under the existing financial disclosure regime, insurers are required to comply with a number of mandatory requirements designed to facilitate informed consumer purchases. For retail (or direct) sales to a consumer, insurers are required to provide a product disclosure statement which provides information about the features and benefits of the policy being sold, including its terms, conditions, limits and exclusions. For home and contents policies, insurers must also provide consumers with a one page key facts sheet, which provides an overview of key policy features in a standard format.

Where insurance is sold through an intermediary, such as an insurance broker or financial institution providing advice, the intermediary must provide the consumer with a financial services guide, detailing services offered, remuneration and the nature of any relationship with an insurer. Where tailored advice is provided to a client, a statement of advice must also be provided, setting out the analysis of the consumer's insurance needs, the options investigated, the reasons behind any recommendation, and information about any commissions or other benefits that the intermediary may receive.

Effective Disclosure Taskforce

For some time, the general insurance industry has been working to identify and develop a path forward to address limitations and issues with existing disclosure requirements. For example, as noted earlier, under the current regulatory regime, an insurer's ability to communicate electronically with its customers has been constrained and is still restricted. It is important that the regulatory framework evolves to meet changing expectations of society.

The FSI brought renewed focus to the efficacy of disclosure practices, where such documents are perceived by industry, government and consumer groups to be overly complex, lengthy and ineffective in assisting consumers to understand their needs and make informed choices.

In October 2015, the ICA released a report prepared by the industry's Effective Disclosure Taskforce called *Too Long Didn't Read – Enhancing General Insurance Disclosure*. The report considered disclosure from a broad perspective, and made a number of recommendations. It also mapped out a five step reform pathway that is in the process of implementation.[21]

QBE is an active participant in the ICA's Effective Disclosure Taskforce, which as part of its reform pathway is currently undertaking ethnographic research focussing on actual consumer purchase decisions that will help the industry understand and address some of the consumer behavioural drivers that impact the purchase of insurance. Further information about the Effective Disclosure Taskforce is contained within the ICA's submission.

Understanding risk and insurance

As noted above, general insurers are actively looking at ways to enhance disclosure by making it easier for consumers to understand their risk and purchase the right level of cover, over and above mandatory disclosure requirements. There are however a number of other important background and behavioural factors that need consideration in this debate.

As a financial transaction, insurance is relatively simple. The real complexity in insurance is in assisting consumers to understand their risks, and purchase insurance which appropriately covers those risks. By way of example, two families may live in houses of similar value in a particular area but one may have much higher exposure to flood than the other. It is important for the family with flood exposure to understand their risk and do what they can to protect against or mitigate the impact of flood exposure in their lives. A home is often an individual's greatest investment and its loss can be a life changing event. Understanding the risk and purchasing appropriate insurance cover is part of the solution for this family. So too, is understanding and taking action to mitigate against their loss and make their property more resilient should a flood occur.

Over the last 10 years, individually and as an industry, general insurers have developed numerous tools and provided extensive information to consumers, communities and governments about the identification, management and mitigation of risks. Examples of some of these tools and information packs are readily available on the ICA's website, including detailed information about preparing for storms, holidays, bushfires, coastal vulnerability, flood vulnerability, under and non-insurance, and strategies to increase business resilience to extreme weather, among other subjects.[22]

Insurers are well placed and have clear incentives to share their expertise and knowledge as there is a clear commercial interest for insurers that risks and consequent damage and losses be mitigated.

It is important however, that there is also an alignment of incentives for individuals and communities. If there is 'no skin in the game' there is a danger that moral hazard will occur. Insurers address this in part through the implementation of excess contributions (or by applying deductibles) keeping the insured exposed to some risk, and by making cover conditional on some risk prevention and similar mechanisms. An awareness that increases in insurance premiums can be due to risky behaviour can be an important factor in incentivising cost-conscious consumers to take positive action to understand and mitigate risk.

QBE initiatives

The introduction of telematics in motor insurance is a good example of how insurance can play this educative role. QBE with Insurance Box has introduced the first of such products for private motor insurance in the Australian market. Telematics insurance is an innovative capability using an in-car device and app that monitors how, when and where a person drives their vehicle, providing a better understanding of driving behaviours such as braking, acceleration, cornering, speed, and so on.

This investment in innovation has the capacity to change how the individual thinks about insurance as it informs drivers about how they drive. Insurance Box enables drivers to look at their personal road skills and challenges them to improve their skills and be rewarded with lower insurance costs. It also offers the opportunity for young and less experienced drivers who are typically considered to be 'high risk' to understand how driving responsibly can make premiums more affordable. Insurance Box and telematics also drive broader community and social benefits by providing insights into accident hot spots, educating, and rewarding safer driving, which ultimately leads to safer roads and reduced fatalities.

Although the majority of QBE's home, motor and strata products are sold through intermediaries, QBE is committed to promoting transparency in insurance coverage. At QBE, we have a customer transformation project in place whereby we are continuously reviewing our processes to improve each customer's experience. For example, we use net promoter scores to understand customer sentiment across different stages of the customer journey, and identify key themes and areas of improvement. We also use information from customer complaints and themes from social media to provide a broad picture of customer experience. Using this information, we hold deep dive workshops and apply human-centred design to agree action plans and continuously improve interactions with our customers.

Increasing transparency – a holistic approach to the problem

For many consumers insurance is a reluctant, or so-called 'grudge', purchase. Purchasing insurance involves acknowledging the possibility that something bad and unexpected may happen. Consumers are also aware that they are paying for a product that they may, or may not, need to call upon. This simple fact makes effective disclosure crucial, yet also inherently difficult.

It is important that consumers are covered for their key risks so that they do not suffer further adverse consequences. However, some consumers need to be actively encouraged to take the time to understand their risks, and purchase appropriate cover. Individually, and as an industry, we understand the importance for consumers to be educated and understand their risk and also to be adequately informed and proactive about their insurance choices. In addition to the industry initiatives focused on increasing transparency around insurance, there have been extensive efforts from insurers, industry and governments to increase consumers' understanding of insurance and the importance of purchasing appropriate cover, with further key research currently underway.

QBE considers that this problem needs to be approached holistically by the industry, governments and individuals in order to improve on the current paradigm.

Opportunities exist for governments to improve the transparency and disclosure of risk information. For example, increased transparency and disclosure to purchasers of property by local governments in high natural peril risk areas should be investigated. Although there are clear legacy issues to consider, looking forward, local government disclosure of natural peril risk to consumers - at time of purchase or occupation - would enable better informed choices to be made by individuals about protecting themselves from risk.

5. Insurance comparison services – Overseas experience

Insurance comparison services (which may also be referred to as aggregators, comparison websites or comparators) have been embedded as a mature distribution model in certain markets overseas for some time, with greatest penetration in simple general insurance products, such as motor insurance.

The majority of these services are, in effect, an alternative commercial distribution model for insurance products, and are driven by profit. Experience in markets such as United Kingdom and Europe demonstrates there can be significant issues and concerns for both consumers and insurers with this distribution model with extensive international research analysing the impact of these services (primarily in the United Kingdom and Europe).

Conversely, although commercial services have been embedded in a number of foreign markets for some time, there are limited examples of independent insurance comparison services operating overseas, although there is more experience of public sector operated services in other sectors.

We have outlined below some information in relation to independent insurance comparison services and some that insights into the operation of commercial insurance comparison services for similar products operating overseas, given the limited number of independent examples.

We are not aware of any examples of comparison websites for strata insurance, which is consistent with our previous comments on the nature of this insurance.

Independent comparison services

As noted, there are limited examples of independent insurance comparison services for the relevant products operating overseas.

Norway

The most notable is Norway's independent comparison service, Finansportalen, which covers financial services, banking, savings and insurance.[23] This service was established in 2008 and is operated by the Consumer Council of Norway, a government agency and consumer protection organisation financed by the Norwegian Government.

All insurers providing non-life insurance are required under legislation to disclose information, including price information, to Finansportalen.[24] For insurance, Finansportalen provides consumers with a price from the insurer that the consumer is actually able to purchase via the online platform.

This is achieved as follows:[25]

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

The World Bank has assessed Finansportalen as having a high degree of sophistication with "advanced product-selection tools with high degree of interactivity and user guidance"[26]. It is also worth noting that Finansportalen began with basic products and expanded product coverage over time, and product data provision and updating is the responsibility of financial institutions[27].

Of significance, the consumer response to Finansportalen appears to have been muted. While the World Bank has praised Finansportalen's sophistication, 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.[28] 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.

Finansportalen appears to have joined other comparison services as a supplementary information and distribution channel.

California

Californian authorities operate a home and car insurance comparison service which is significantly less sophisticated than Finansportalen in Norway. Consumers provide answers to a limited number of predefined questions, and the service displays estimated annual premiums.[29] Links are provided to high-level tables which set out additional coverage options, and available discounts and credits. Telephone numbers are also listed so that consumers can contact individual companies to obtain quotes.

The ICA's analysis of the Californian service indicates that it has had no discernible positive consumer outcomes, with Californian motor premiums being the seventh highest out of 51 states, while also experiencing significant spikes in recent years.

Australia

The Californian website appears to be similar in approach to the Australian ASIC-operated North Queensland home insurance website.[30] This service was established in 2015 to help consumers compare home building and home contents insurance products for properties located in North Queensland, given the high natural peril risk in that area.

Similar to the Californian proposition, consumers are not able to purchase any policies via the website however, indicative prices are available based on predefined form options. These services then provide referral information to relevant insurers so that consumers can contact the insurer directly for an accurate quote.

There are of course numerous other non-insurance independent comparison websites operating in Australia. These services compare relatively simple and standardised product offerings such as energy, groceries, health insurance and fuel.

Commercial comparison services

Given the limited number of independent insurance comparison services in operation, it is helpful to consider the impact of overseas commercial comparison services in such markets as the United Kingdom and Europe. The use of commercial comparison services in the United Kingdom insurance market has grown rapidly since the early 2000s, and is now considered a key distribution channel for retail general insurance products, and motor insurance, in particular.

Experience has demonstrated that there can be significant issues with the operation of these models, and valuable learnings can be drawn from the impacts on consumers and insurers.

Overseas regulators have expressed reservations and concerns that comparison services often do not make it clear what role they are performing when providing quotes 'with "less sophisticated buyers" misunderstanding the role played by aggregators'.[31] Concerns have also been raised with the lack of transparency or misleading information provided to consumers around the remuneration structures of comparison services.[32] Similarly, regulators have highlighted a lack of transparency and the potential for conflicts of interest, which could stem from close commercial links between insurers or brokers and comparison service operators, with many owned by, or affiliated with, particular insurers or insurance brokers.

Comparison service business models typically depend on high volumes in order to maximise revenue, which can be fee based on pay per new business conversion, or pay per click or advertisement, or a combination of these arrangements. As such, comparison service marketing strategies and business models can be dependent on and encourage churn regardless of consumers' needs and requirements.[33] As the insurance comparison model in essence precludes customer loyalty, they generally have to renew their existing market share on an ongoing basis.

This has seen a heavy investment by comparison services (and consequently insurance companies) in marketing, with a significant spend on advertising in order to attract new business which adds, possibly unnecessarily, to transactional costs that will ultimately impact premiums.

Overseas comparison services are now facing pressure for profitability with margins squeezed. The combined impact of social networking, content search and other online consumer analytics services (eg Google) entering this space, together with insurers' own digital initiatives means that comparison services are clearly looking to other markets to maintain profitability. This trend is seen in overseas markets where comparison services are shifting from a 'growth' to a 'share stealing' strategy as the market has matured, however this is not without consequent risk for consumers.[34]

It is important to understand that the advent of comparison services in the United Kingdom motor insurance market significantly impacted the profitability of insurers and distributors, with unsustainable outcomes. As a result, many insurers have left or are planning to leave the market to seek better returns on their capital and investment.[35] Profit in the United Kingdom motor market is now largely dependent on investment income and ancillary sales to create a return on invested capital.

6. Insurance comparison services – Costs and benefits

As outlined by the World Bank[36], one of the key advantages of public sector comparison services are that they are objective. They can be designed to combine comparison data with complementary financial guidance and educational tools that can increase transparency for consumers, such as budget calculators and consumer protection materials. The World Bank also notes that they are most useful for comparing standardised, commoditised products and are less appropriate for sophisticated products[37].

However, establishing a mandatory independent comparator website for home insurance that provides a real comparison (not just price) is extremely complex (and for strata, even more problematic). As the Committee will be aware, the complexities involved in the establishment of the ASIC *North Queensland home insurance website* is a case in point. Unlike motor insurance, where most people can make do without a car, making do without a place to live creates the risk of personal ruin. The importance of obtaining appropriate insurance to protect individuals against this risk is critical.

The United Kingdom general insurance market is substantially deeper than the Australian market. Given the experience in this market, it would be important to ensure that any establishment of such comparison services by government does not result in similar negative outcomes, including 'hollowed out' product offerings, a lack of value for money for consumers, reduced competition and market exits.

In this respect, QBE refers the Inquiry to two relevant reports on the operation and practice of aggregators or comparison websites from the United Kingdom's Financial Conduct Authority (***FCA***) (July 2014) and the European Insurance and Occupational Pensions Authority (***EIOPA***) (January 2014).[38] These reports illuminate some of the issues and concerns for consumers with this distribution model, which are touched on briefly below.

Poor consumer outcomes

Focus on price over value

One of the key issues associated with comparison services is the risk that consumers will compare and select insurance cover on the basis of price, rather than also considering whether each option appropriately suits their needs. Numerous studies and reports have found that the primary focus of insurance aggregator or comparison websites inevitably revolves around a comparison of price[39].

A recent paper released by PricewaterhouseCoopers in the United Kingdom on behavioural economics and driving better customer outcomes, provides some insight as to the attraction for consumers in this respect. [40] Financial products are inherently complex for most people and, faced with complexity, customers may simplify decisions in ways that lead to errors, such as focusing only on headline rates.[41]

A comparison service model leading to a predominant focus on price would be of even greater concern in relation to strata insurance. The primary purpose of strata insurance is to protect the interests of the collective lot owners. Each lot owner is liable for the full extent of the scheme's debts. Any underinsurance will lead to special levies to all lot owners to make up shortfalls and often cause schemes to take action to recover monies (such as bankruptcy proceedings). As such, in each state, strata schemes have a legislative obligation to insure common property for the full replacement value. In a price sensitive market, we are already seeing strata schemes choose lesser levels of cover and understate values and the building sum insured, which has significant underinsurance implications. Leaving aside the complexities involved, a comparison service model for strata insurance may well exacerbate this issue.

Product commoditisation and risks of inadequate cover

Flowing from this, the predominant focus on and sensitivity to price that is reinforced by the comparison service model has led to product offerings in the United Kingdom that have become increasingly commoditised, with a primary emphasis on price over value.

A useful example is the provision of motor insurance in the United Kingdom where the introduction of comparison services into this market led to insurers reducing or stripping product offerings to a 'core' product so that pricing of their product can feature in the top rankings of comparison websites. The risk is that this reduced offering can leave the consumer with inadequate or inappropriate cover, and a product that may not suit their needs.

PricewaterhouseCoopers has found that, as financial products usually have a substantial effect on the long term wellbeing of customers, a poor decision made can have a highly significant effect on the consumer. The potential consumer impact is highlighted by Accenture in the example of the United Kingdom floods in 2014:[42]

> *Customers find it easier to choose insurance products based exclusively on price… It also makes customers selecting cheaper options more vulnerable to being under-insured – as evidenced in the aftermath of the record-breaking floods in the UK in 2014, when many customers who purchased their insurance through aggregators discovered they did not have the breadth of coverage they needed.*

The focus on price as a decision factor for consumers and the increased commoditisation of insurance products driven by this model means there is less ability or opportunity for insurers to differentiate themselves with service, claims handling experience and expertise or strength of insurer brand. All insurers are not equal in terms of claims management, and consumers who have made decisions based primarily on price will only experience this differentiation at the time of claim, which can lead to poor outcomes for consumers and reputational issues for the industry.

However, if non-price policy features are given less prominence, the opportunity for consumers to purchase insurance that most suits their needs and preferences and to support the competitive environment in which insurers seek to differentiate their products, will be negated.

Inadequate information for informed choice

QBE appreciates that comparison services can potentially improve consumer engagement and access to information. However, the focus on price in the way product information is presented on comparison websites has the potential to exacerbate the above issues, diverting attention away from other important product dimensions or service quality.

A recent report by the United Kingdom Regulators Network (***UKRN***) highlights these services ‘may sometimes restrict or distort consumers’ abilities in accessing, assessing and acting on information, such that the potential for benefits are not fully achieved, or new risks arise’.[43]

Quality of information to support informed choice is a particular area of concern, as the FCA found in its market study on general insurance add-on comparison services and thematic review of insurance aggregators.[44] The United Kingdom experience is supported by evidence in Australia in relation to concerns over the quality and accuracy of data and information on comparison websites, with APRA, ASIC and the ACCC noting concerns about the operation of such websites.[45]

Practical limitations and market implications

Risk information required

Insurers require sufficient information from people seeking insurance to assess the risk and price of the proposed cover. Information is obtained by seeking specific information from consumers, using data, and proprietary information and systems. While there are some similarities in the broad categories of risk information insurers seek, there are significant differences. Particularly where targeted information is sought for more tailored products and optional extras offered by insurers to add value for consumers or as a competitive point of difference by insurers. For example, asking a consumer if a property has a swimming pool (liability cover may be relevant).

We have already touched on some of the complexities relevant for home insurance. As outlined earlier, strata insurance is a bespoke product. It is possible for strata policies to cover a mix of residential and commercial units under the one policy and some strata complexes can now include significant infrastructure, such as lifts, underground car-parks, cinema complexes, outdoor cabanas and other ‘lifestyle’ facilities.

In the case of a comprehensive independent comparison service, the government would need to consider what common risk information would need to be collected and decide how to collect risk information from consumers so that quotes can be provided. This would involve establishing a customer interface connecting with many different insurer systems. Depending on which risk questions were ultimately selected, some insurers would gain a significant commercial advantage, while others would need to overhaul their internal risk models and lose the benefit of valuable commercial information. This would introduce a degree of uncertainty into insurer pricing, which could lead to higher premiums, and less competition, if insurers are required to estimate future losses without sufficient data or the ability to assess risk.

The rise of online sales is also compromising data quality and increasing application fraud as some customers intentionally provide inaccurate information, and see the prices quoted online come down immediately as a result. This inaccurate information is potentially undermining the quality and value of insurers' databases, with consequent impacts on risk and pricing decisions.[46]

Comparing non-standard products

For a comparison service to be both workable and effective, it needs to be comparing the same things. Where independent comparison services do exist, they tend to do so in an environment involving standardised products with regulatory oversight of pricing (commonly statutory insurances).

As noted above, motor, and especially home and strata insurance, are non-standard products and vary widely in design to address different consumers' specific needs. While most offerings of a similar type will include some core features, additional features vary significantly between insurers.

This is a key feature of Australia's competitive general insurance market, as insurers are able to design products in a way that they feel will be the most attractive to and beneficial for consumers. Where consumers do not see value in a particular form of cover, it may be varied or removed. Where consumers respond positively to a product feature, the insurer may look at ways to further enhance the offering.

As consumer feedback is integrated, product offerings are continually developed and improved. Conversely, overseas experience has demonstrated that requiring insurers to distribute products through a comparison service has had the opposite effect. Given the focus on price, rather than value for money, insurers have stripped back product offerings in order to maintain market share.

Reduced competition

Comparison services ruthlessly expose any price weakness, which could lead to significant losses for some insurers. Insurers without significant market share and diversified risk portfolios would be especially vulnerable and may exit the market to seek better returns on their capital and investment, as has occurred in the United Kingdom.

There is also a risk that valuable risk pricing information will be able to be discovered by other insurers to the detriment of market competitiveness. For example, in areas of high natural peril, such as cyclone risk in far North Queensland, given the limited appetite of insurers for this risk, it may have the opposite impact on insurance prices, with insurers pricing to limit exposure, rather than gain market share.

One-off and ongoing costs

Insurers have a myriad of different systems and approaches to product coverage, risk appetite, risk information for decision making, pricing, distribution systems and customer value propositions. The costs involved for insurers in establishing and providing ongoing input to an independent comparison website should not be underestimated, given the complexities of gathering risk information, automation, and managing specific arrangements such as intermediaries and multi-policy discounts.

Not all insurers conduct transactions online. Even insurers that currently conduct a significant proportion of their business online would face significant costs developing a platform to interface with a comparison service.

QBE considers that the set-up costs and ongoing compliance costs of participating in a mandatory live quote comparison service would be considerable and need to be carefully weighed against potential benefits. As outlined earlier, profitability in these personal lines over the period is constrained. 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.

7. A way forward

QBE recognises and supports the Inquiry's aim to increase general consumer information about the availability of insurance and different product offerings. QBE does not however consider the establishment of a mandatory comparison service would operate to effectively improve competition or benefit consumers.

Comparison services may work in a highly competitive market for standardised product offerings however establishing an effective service for complex insurance products like home and strata insurance, is problematic. Additionally, given the high natural peril risk in Australia (for example – Northern Queensland cyclone risk) and the limited appetite of insurers for this risk, it may have an opposite impact on insurance prices, with insurers pricing to limit exposure, rather than gain market share.

The most comprehensive international independent comparison website, Finansportalen, costs a significant amount to operate, and has limited public use. The United Kingdom example, involving commercial comparison services, has demonstrated the negative market and consumer side-effects that can occur, including consumer behaviour focused purely on price (rather than considering the products available and purchasing an appropriate level of coverage), reduced competition, the market exit of a number of insurers, base-level product offerings and poorer deals for consumers in the medium term.

Insurers make decisions about which distribution channels to sell their products through based on a number of factors, including the preferences of their specific customer-base and their value proposition for customers. The ability for insurers to choose their distribution channels supports competition.

A suggested way forward however, if the Inquiry is minded to make a recommendation for an insurance comparison service, could include:

- Developing a product availability service, similar to the ICA’s ‘Find an Insurer’ service, which provides consumers with a list of general insurers that offer particular products. Consumers could either browse the website by product type, or enter limited information, such as their state of residence, age and the type of insurance sought, to access a list of insurers or products available, and links to insurer websites. To improve transparency, the website could also note which brands belong to which insurers.
- Consider extending the Northern Queensland comparison service more broadly as an information website with simple price and features comparisons for insurance products, updated on a six monthly basis.

Both of these options would be comparatively cost effective methods of improving transparency for consumers, without adversely affecting market competitiveness, consumer behaviour or the availability of coverage.

8. Further information

Thank you for the opportunity to provide this submission to the Inquiry. Please do not hesitate to contact QBE’s Head of Government Relations and Industry Affairs, Kate O’Loughlin, at or on if you would like to discuss any aspect of this submission, or if you require any further information.

Appendix – Description of home, motor and strata insurance

Home insurance

Home insurance, which is sometimes also known as household or residential building and contents insurance, provides cover for financial losses resulting from damage to an individual's house or personal household belongings. Typically, home insurance provides cover for damage caused by weather events, vandalism and theft, water damage, accidental damage and essential temporary repairs. Many policies also include a level of personal legal liability protection.

Consumers can choose to take out home building cover, home contents cover, or both. A person may also elect to purchase additional protection, including cover for accidental loss or damage, cover for personal items when they are taken outside of the home, and higher limits for valuable items, such as art, jewellery and electronic equipment, which may be valued at a sum greater than standard policy limits.

Motor insurance

Motor insurance provides cover for financial losses resulting from damage to a motor vehicle, and related legal liability. The highest level of motor cover is comprehensive insurance, which generally includes accidental damage, fire and theft, as well as damage caused to another person's vehicle or property. An alternative lower cost form of cover is third party cover, which covers damage caused to another person's vehicle or property, but not the policy-holder's motor vehicle. Variants of these policies are also available.

Motor insurance is different to compulsory third party (***CTP***) motor insurance, which is a mandatory statutory product that provides compensation for personal injury caused by a motor vehicle accident, but does not provide any property damage cover.

Strata insurance

Residential strata insurance, which may also be known as body corporate cover, is a very different product to home and motor insurance, which are predominantly consumer or retail products. Strata insurance is a mandatory statutory product that provides cover to the body corporate for common property which is under the management of a strata title or body corporate entity, such as residential apartment buildings.

Strata insurance generally covers common or shared property, such as the building structure, lifts, car parks, gardens, balconies, windows and walls. This form of insurance also provides liability cover in the event that a person is injured on common property. Most strata managers or body corporates use a broker or specialist underwriting agency to negotiate cover, and insurance companies will often undertake a specific assessment of the risk before providing a quote.

As such, strata insurance is a specialised product that is tailored according to the nature of the property and the extent of cover that strata title or body corporate entities are required to hold by law. Strata insurance is not a retail consumer product, although the cost of strata insurance is generally recouped from individual unit owners as a part of body corporate levies.

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