

4 October 2019

Tim Wong
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Financial System Division
Treasury
Langton Crescent
PARKES ACT 2600

By email: AddOnInsurance@treasury.gov.au

Dear Mr Wong

PROPOSAL PAPER – REFORMS TO THE SALE OF ADD-ON INSURANCE PRODUCTS

Suncorp welcomes the opportunity to respond to the Proposal Paper on the *Reforms to the Sale of Add-on Insurance Products*.

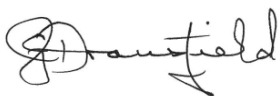
Suncorp offers a wide range of highly-valuable financial products including general insurance, banking and superannuation through various distribution channels. With more than nine million customers, Suncorp consistently achieves strong customer satisfaction scores and in 2018-19, the company received more than 700,000 motor and property claims and paid out more than 98% of all consumer insurance claims. This demonstrates the significant value we provide in offering quality products that protects what matters most to our customers. We do not engage in pressure-selling of low-quality insurance products that offer little value to customers, either because they represent poor coverage and/or are inappropriate to the customer's circumstances.

Suncorp supports reforms to the sale of add-on insurance and the introduction of the deferred sales model. These reforms will complement ASIC's Product Intervention Power and Design and Distribution Obligation reforms. We also note a likely interplay with the upcoming anti-hawking reforms.

This submission focuses on highlighting issues around implementation of the model. Suncorp argues that building and contents insurance, caravan insurance and landlord insurance should follow comprehensive motor insurance by being classed as exempt from the regime. This owes to the demonstrated value of these products and likelihood of consumer detriment if they are sold under a deferred sales model.

We would welcome the opportunity to discuss this reform further. If you have questions regarding this submission, please contact Pip Freebairn, Senior Manager – Government, Industry and Public Policy on 0402 417 368 or by email to pip.freebairn@suncorp.com.au.

Regards,



Gary Dransfield
CEO Insurance
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Suncorp response to the Proposal Paper

Executive Summary

Several Government inquiries have highlighted poor customer outcomes arising from the add-on insurance market. As Treasury notes, these reviews have identified issues in add-on insurance markets including pressure-selling, poor claims ratios and low levels of consumer satisfaction.

Suncorp does not undertake pressure selling of poor-quality products to customers who are uninformed. We welcome the Royal Commission recommendation to introduce an industry-wide deferred sales model for add-on insurance products. We believe that Treasury has appropriately identified four criteria that would allow specific products to be exempt from the regime and sold as an add-on product without being subject to a deferred sales model.

Home and contents insurance and landlord insurance should be exempt from the deferred sales model as they meet Treasury's criteria for exemption. Home insurance can be sold as add-on insurance through banks and mortgage brokers when a customer is applying for finance. Landlord insurance can be purchased as an add-on product through a property management agency when a customer is engaging the agent to manage their investment property.

We also support the exemption being applied to comprehensive motor insurance sold through the motor dealer channel, as identified in the Proposal Paper. Suncorp argues that comprehensive insurance bought through a leasing agent or purchased when a customer is seeking finance, should also be exempt.

Finally, we note that travel insurance fails to meet the criteria identified for exemption and should be subject to the deferred sales model. A broader review of travel insurance is warranted to address low levels of customer understanding and satisfaction. It is also important for this review to understand the drivers of underinsurance, especially among younger people.

Introduction

Suncorp supports the introduction of the deferred sales model. We make the following comments to aid Treasury's implementation of the model. We focus on ensuring that it delivers appropriate protections for individuals and small business customers.

Royal Commission reforms

Recommendation

- *Suncorp supports reforms that will address poor customer outcomes arising from the add-on insurance market, including the introduction of the Deferred Sales Model. We note the upcoming reforms to anti-hawking are likely to have significant interplay with the add-on insurance reforms. This is also the case with ASIC's Product Intervention Power and the Design and Distribution Obligations. We would welcome an opportunity to consider these reforms together to ensure they are meeting the objectives of improving customer outcomes without leading to confusion through regulatory overlap.*

Background

Suncorp believes that customers are best served by competitive markets which lead to greater customer choice and experience by driving innovation in product design and delivery. Customers also need access to good information on the products and services they buy to inform their decision making.

The poor customer outcomes emanating from the add-on insurance market reflect several issues, namely cases of high pressure selling, poor product design, as well as a lack of customer choice and lack of transparency around commissions. As the Proposal Paper highlights, these issues are being addressed through several reforms:

- Product Intervention Power and the Design and Distribution Obligations
- A Deferred Sales Model
- Upcoming Anti-Hawking reforms

We would note that greater disclosure and transparency around commissions is also likely to aid customers' decision-making process when it comes to purchasing add-on insurance products.

Suncorp hopes these reforms will be complementary and will encourage better customer outcomes. Ideally, they will not lead to regulatory overlap and confusion. Suncorp will participate in the consultation on the anti-hawking reforms.

Scope of the deferred sales model

Recommendation

- *The Deferred Sales Model should be applied to retail client insurance products as defined by the Corporations Act 2001. There is little customer benefit to applying this regime to wholesale products.*

Background

We note that the Proposal Paper is silent on the application of the deferred sales model when it comes to retail and wholesale product types. The deferred sales model is aimed at enhancing protections for individuals and small businesses and applying the regime to retail clients is the most appropriate. We do not believe that the deferred sales model should be applied to wholesale or commercial insurance clients, who are typically larger, frequently buy the product through a broker channel, and are more likely to be informed when purchasing the product.

Product Tier Design

Recommendation

- *Suncorp supports the four criteria outlined by Treasury to identify if a product should be considered a tier two product and therefore be subject to the deferred sales model. While claims ratios are a good measure of customer value, Suncorp believes that a wider range of factors should be considered when assessing customer value.*

Background

We recognise that the deferred sales model will capture all add-on insurance products by default and minimise exemptions, in line with the Royal Commission recommendation. Exemptions should only arise where there is strong quantitative evidence of product value and consumer understanding.

Suncorp supports the criteria identified by Treasury that enables a product to be exempt from the deferred sales model. These criteria are:

- A product is historically good value for money;
- Strong competition exists in the markets for the product;
- A high risk of underinsurance and consumer detriment exists if an insured event occurs during the four-day deferral period;
- The product is well understood by customers.

Suncorp is committed to selling quality products to our customers that offer them value. The Proposal Paper cites ASIC research showing that gross amount returned to consumers over five add-on insurance products including CCI and guaranteed asset protection insurance was less than nine cents for every dollar of premium paid. This compared to around 85 cents in the dollar for car insurance and 55 cents for home insurance.¹

Low claims ratios are a good indicator of low customer value, but not a complete indicator. In 2018, the Insurance Council of Australia (“ICA”) commissioned actuarial and insurance consultants Finity to develop a framework for measuring customer value in general insurance products (Appendix A). Finity studied value from an individual customer’s perspective and defined it broadly as a “tangible benefit for a reasonable cost”. Suncorp believes that the suite of metrics identified by Finity provide a sound basis for Treasury to holistically consider customer value. We have attached this work to our submission and call out its findings in this submission.

Exempt Products

Recommendations

- *Home building and contents insurance and landlord protection insurance should also be exempt from the regime through legislation. These products meet Treasury’s criteria for exemption, and are similar in nature to comprehensive car insurance as they protect what are likely to be a customer’s largest assets.*

Background

Home building and contents insurance and landlord protection insurance should be exempt from the deferred sales model through legislation like comprehensive motor insurance.

Home building and contents insurance

Customers may purchase home building insurance from a bank directly, or via a mortgage broker, when the customer is going through the mortgage application process to finance the purchase of property. Typically,

¹ ASIC: Report 492: A market that is failing consumers: The sale of add-on insurance through car dealers (September 2016) p7

customers also purchase contents insurance with their building cover to cover the internal fittings and fixtures not included in their home building insurance.

Mortgage contracts require that customers have building insurance as condition of property settlement to protect the asset being financed. In practice, customers are asked by their bank to provide a Certificate of Currency once the loan is approved. Many customers choose to put in place building and home insurance prior to settlement to cover for any damage that could occur to the property between the exchange of contracts and settlement that is not sufficient to end the contract.

Addressing the criteria specifically, Suncorp notes:

- Finity’s analysis paper highlights that home building and contents policies provide customers with good value, which is also evident in ASIC numbers cited by Treasury in the Proposal Paper.
- Many providers exist for home policies highlighting a significant level of competition.
- Customers face significant detriment if an insured event occurs during the four-day deferral period. For most Australians, their home is their largest asset. A customer would face substantial detriment if their home was destroyed while under finance to their bank.
- Home policies are generally well-understood products, although customers’ understanding could be improved given an industry claims decline rate of 6.3% in 2016-17.

Landlord insurance

A customer may purchase landlord insurance through their property manager when they arrange tenancy management services for an investment property. A typical landlord insurance policy will offer rent default and cover for contents and building for damage caused by tenants up to a sum insured.

Suncorp provides landlord insurance through several of our brands. We believe that this product meets the criteria outlined by Treasury. Suncorp’s own data shows a good claims ratio that is evident of customer value; competition is evident as there are several large insurers along with a number of challenger brands offering the product; and the customer is at risk of detriment if they face an insured event during the four days, including destruction of property by their tenant or a public liability event at their property.

Comprehensive Motor Insurance

Recommendation

- *Suncorp understands that comprehensive motor vehicle insurance sold by motor dealers will be exempt. We note this exemption should apply to comprehensive motor vehicle insurance regardless of distribution channel. This ensures those customers who obtain finance or obtain a car through novated leases are also able to access motor insurance when they acquire their car.*

Background

We note that comprehensive car insurance sold through the motor dealer channel is exempt from the deferred sales model. This follows an earlier decision by ASIC through its review of add-on insurance through the motor channel, which was recognised and accepted by Justice Hayne in Recommendation 4.3. ASIC argued that a deferred sales model for comprehensive motor insurance could lead to consumer detriment if the car was damaged during the deferred sales period when the customer was not insured.

Suncorp supports this view. Comprehensive motor insurance is a well-understood product that offers customers value, which is evidenced in the Finity paper as well as data cited by ASIC.

Suncorp submits that the product itself should be exempt from the regime via legislation rather than specifically when sold through the motor channel. Customers acquiring cars through novated leases could face the same

levels of serious detriment as those acquiring through a motor dealer if they faced a four-day period of no insurance while in possession of a new car under a leasing arrangement.

Recommendation

- *Suncorp notes there may be instances of a customer electing to take motor cover at a lower level of coverage, for example electing to have third party property, fire and theft motor insurance only. These products should also be exempt from the regime.*

Background

In practice, motor dealers and finance providers only offer comprehensive motor insurance. However, customers can ask for a lower level of coverage than comprehensive car coverage. This could include a policy that covers third party property, fire and theft for motor. We believe that this product should also be exempt from the deferred sales model given the consumer detriment that could occur during the deferred sales period if the customer experienced an insured event.

Recommendation

- *Suncorp also notes that insurance products for caravans and motorcycles should be subject to the comprehensive motor carveout.*

Background

Suncorp believes that the arguments made for the carveout for comprehensive motor insurance apply equally to caravan and motorcycle insurance sold through dealers.

Tier Two Products – Travel Insurance

Recommendation

- *Suncorp supports Treasury's recommendation that products that fail to meet Treasury's criteria should be subject to a deferred sales model. This includes travel insurance.*

Background

We have noted that customers benefit the most from competitive markets that drive innovation in product design and delivery, and provide choice to customers. We are aware of concerns around poor customer outcomes in the travel insurance market including a high level of complaints. These issues have prompted ASIC to commit to a review of the travel insurance industry.

For this reason, Suncorp does not agree with other insurance industry participants that travel insurance should be exempt from the deferred sales model. Treasury's proposed model only exempts products that can satisfy the four criteria identified by Treasury and we do not believe that travel insurance meets this threshold. We address each of Treasury's criteria below.

Criteria One: Historically good value for money

We note that travel insurance is identified in the Finity work as offering a low level of value across a range of measures.² These data include low rates of claim frequency, low claims ratio, and a high ratio of commission compared to premium.

Criteria Two: Well understood by consumers

AFCA has echoed ASIC's concerns around the high level of complaints for travel insurance. AFCA has confirmed the most common complaints regarding travel insurance relate to various exclusions contained in the policies,

² Finity Consulting Pty Limited (November 2018), Measuring Customer Value in Insurance Products, p8.

which in many cases are quite broad in nature. Data from AFCA's predecessor (FOS) shows that travel insurance is in the top three most complained about domestic insurance products.³

This aligns with data from the Code Governance Committee on the claims acceptance rate. At an industry-wide level, the Code Governance Committee (CGC) released a paper in March 2018 that noted:

"The proportion of travel claims accepted is the lowest of any retail class and dropped from 88.4% in 2015–16 to 87.9% in 2016–17. Two of the fifteen Code subscribers that offer travel insurance had very low claim acceptance rates of just 56.8% and 58.0%".⁴

Further analysis of the CGC data from 2016-17 shows that travel claims had the highest rate of customer claims declined in retail insurance at 11.7% of total claims lodged.⁵ This was significantly higher than other classes such as home (6.3%) and motor (0.4%). The main reason for decline was a lack of cover, indicating customers did not have a good understanding of the product they had purchased.

As Treasury is aware, other general insurance reforms are underway including the Design and Distribution laws and the Unfair Contract Terms regime extending to insurance contracts. As part of complying with these reforms, Suncorp has and continues to undertake detailed reviews of (and make necessary amendments to) our travel insurance PDS and distribution processes with a view to making our product easier to understand for consumers. While we feel significant progress has been made, the complaints data and declined claims data produced at an industry wide level indicates that travel insurance products are generally not as well understood as other forms of insurance.

Criteria Three: Strong competition

Suncorp offers travel insurance on a standalone basis directly to customers who are interested in the product.

We note that the travel insurance market is dominated by two suppliers, who accounted for around 52% of the market in July 2019.⁶ The CGC reported in June 2018 that over half of travel policies were sold through add-on channels (for example, through airlines and travel agents).⁷ The relationships with add-on distributors are owned by a small number of large travel insurers that have dominant market share.

The extensive use of add-on channels to sell travel insurance substantially lessens competition and diminishes the need to improve products for customers. There is also a lack of transparency around commissions in this channel and its impact on premiums. Suncorp believes Treasury's proposed deferred sales model will play a significant role in promoting competition in the travel insurance market, thereby driving innovation on product design and enhancing customer choice.

Criteria Four: High Risk of underinsurance

We recognise that the rate of underinsurance is concerning in the travel insurance market, especially for younger Australians who demonstrate a lack of awareness around the need or purpose of travel insurance.⁸ Suncorp believes that the appropriate response to the underinsurance issue should be informed through analysis of up-to-date customer behaviour data. We will engage fully in the ASIC review and any other industry initiatives on travel insurance, where underinsurance should be addressed.

Given the above information, Suncorp submits that travel insurance fails to meet the criteria for tier three products and should therefore be subject to the deferred sales model as a tier two product.

³ FOS Annual Reviews for 2016, 2017 and 2018

⁴ CGC Report, [General Insurance in Australia 2016-17](#), March 2018

⁵ Ibid, p.63

⁶ IBIS World Industry Report: OD4216 Travel Insurance Industry in Australia (July 2019), p21

⁷ CGC Report, [Who is Selling Insurance?](#), June 2018

⁸ Quantum Market Research; [Survey of Australians' Travel Insurance Behaviour](#) prepared for the Insurance Council of Australia and Department of Foreign Affairs and Trade (August 2016)

Compulsory Third Party insurance

Recommendation

- *Suncorp notes that CTP is exempt from the deferred sales regime given it is a state-regulated product. Regardless, Suncorp believes Treasury should recommend to states that the South Australian CTP insurance random allocation model for policies sold via motor dealers is extended to other jurisdictions.*

Background

The desire of some insurers to secure CTP insurance customers through their purchase of new vehicles, combined with the legislative restrictions on insurers paying commissions to motor dealers for CTP insurance sales, has been influential in certain sales practices that are not in the best interests of customers.

A deferred sales model for CTP insurance successfully operates in South Australia where CTP policies attached to new vehicles are randomly allocated a CTP insurer, in proportion to insurers' market share. The customer is then free to select their preferred CTP insurer within three months of policy inception. This contrasts with other states such as Queensland, where the motor dealer may have a disproportionate influence over the selection of CTP insurer at the point of sale, thereby reducing the ability of the customer to make an informed choice.

Suncorp recommends that the South Australian CTP insurance random allocation model for CTP policies sold via motor dealerships is extended to other jurisdictions, ensuring customers can make an informed decision.

Appendix

Finity Consulting Pty Limited (November 2018), *Measuring Customer Value in Insurance Products*. (Attached)