

Ms Tracey Horsfall
Productivity Commission
GPO Box 1428
Canberra ACT 2601

29 July 2016

Dear Ms Horsfall

Productivity Commission Inquiry into Data Availability and Use

The Insurance Council of Australia¹ (the Insurance Council) appreciates the opportunity to provide the attached submission in response to the Productivity Commission's Inquiry into Data Availability and Use (the Inquiry). The Insurance Council is the representative body for the general insurance industry in Australia, which relies heavily on access to a broad range of data to identify, measure and price risk in providing insurance coverage to individual consumers and businesses.

The Inquiry presents a timely opportunity to ensure that the full potential of data, given the technological advances that better enable its capture and analysis, is harnessed to meet consumer, business and government needs.

The Insurance Council's submission presents the general insurance industry's perspective of the opportunities and challenges presented by increased access to big data. Our submission also addresses the Commission's request for feedback on public and private sector datasets that should be made more accessible.

If you have any questions or comments in relation to our submission, please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate,

Yours sincerely

Robert Whelan
Executive Director and CEO

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. March 2016 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$43.8 billion per annum and has total assets of \$118.5 billion. The industry employs approximately 60,000 people and on average pays out about \$124.2 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

**Inquiry into Data Availability and Use:
Submission by the Insurance Council of Australia**

1. INTRODUCTION

The Inquiry's terms of reference noted that effective use of data is increasingly integral to the efficient functioning of the economy. This observation is particularly relevant to the way data is used by the general insurance industry. The industry relies heavily on access to a broad range of data to identify, measure and price risk in providing insurance coverage to individual consumers and businesses. With the exponential growth in the amount and sophistication of data generated in recent years, the industry has been able to more accurately price insurable risks. With the availability of big data, the trend towards highly granular risk-based pricing will accelerate in coming years.

The increasing availability of data will drive innovation and help the industry to design products targeted at meeting individual consumer needs. Technological advancements also provide an opportunity for consumers to access and use data to more effectively inform choices and decision-making. However, like other sectors, the increased use of data by insurers and consumers also presents challenges and risks. The Insurance Council of Australia's (the Insurance Council) submission, in section two, outlines the opportunities and risks of big data from a general insurance perspective.

The Issues Paper requests feedback on the types of public sector datasets that should be considered high-value data. Section three of our submission identifies public sector data that would benefit from wider accessibility and use, specifically, natural hazard data; building code standards; mental health data; data collected by the Australian Prudential Regulation Authority (APRA) for its National Claims and Policies Database; and driving record data.

Finally, section four of our submission focuses on insurer-held data and the potential to increase the accessibility of this data, particularly to consumers. Whether there should be public access to insurer data is a complex issue, and the impact on incentives to invest in research and data analysis capabilities will need to be carefully considered. The Insurance Council submits that access to insurer data needs to be considered on a case-by-case basis and should only be pursued where the expected benefits will outweigh the risks.

2. DATA AND ITS USE IN GENERAL INSURANCE

2.1. Data and the Transformation of Risk Pricing

Sound general insurance practice has always relied on public and private data in identifying and measuring risk. In its simplest form, insurance is the transfer of risk, for the price of a premium, from consumers, households and businesses to insurers; a transfer that is based on understanding and costing the risk being insured. As collecting and storing data has become more efficient and cost effective, insurers have the potential to collect vast amounts of data on the personal characteristics of policyholders, their surrounds and other general trends (such as the economy and environment).

The proliferation of data and the technological advances enabling its capture and analysis have already had a profound impact on the industry. Advances in scientific research and other digital modelling has been particularly important in understanding natural hazards and other catastrophic risks. This has enabled more accurate risk-based pricing. For example, while flood and cyclone risk was previously underwritten at the postcode level, increased granularity of data has enabled most insurers to price at the individual address level.

The use of geocoding techniques in locating precise geographic coordinates is another example of improving sophistication in data capture and analysis; the pricing of insurance for a motor vehicle can now factor in not only the address where the vehicle is garaged, but also the impact of any nearby traffic black spots. Many insurers are gradually expanding the range and precision of location based pricing as new datasets come to hand.

While there has already been a significant transformation in how the industry captures and analyses data in the pricing of risk, we anticipate that big data will have an even more profound impact. Pervasive use of online technology for transactions, the internet and social media means individuals leave digital traces that can be harvested to generate big data. This growth of data will provide ever increasing insights into the risks that individuals and communities face.

In accessing and using data that is personal information, the insurance industry recognises the importance of robust checks and balances within processes and systems to ensure that customers' privacy is appropriately protected.

2.2. Big Data: Opportunities for Industry

Big data presents significant opportunities for all parts of an insurer's business, from risk-based pricing and product innovation to consumer engagement and claims management. While data-driven innovation in the financial and insurance services industry was estimated to total \$6.6 billion in 2013, analysis by PricewaterhouseCoopers indicated that data driven innovation in the industry has much more potential to create significant value for the Australian economy².

2.2.1. Risk pricing

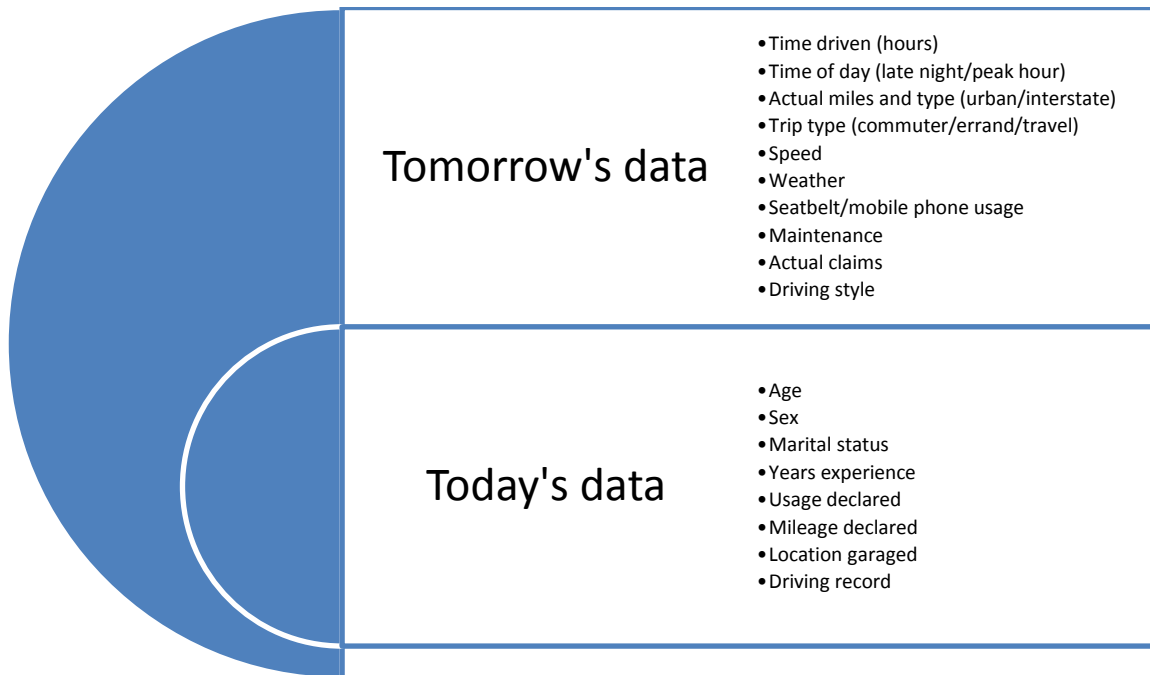
Over the past decade, improved granularity of data has transformed most general insurance product classes as risk rating becomes more differentiated according to factors particular to individual insureds; such as the risk of a claim occurring and the value of any such claim during the term of a policy. This has allowed pricing to move away from the community rating model, where risk is not differentiated within a group, to more individualised underwriting. However, despite increased granularity of data, demographic factors such as an individual's gender and age are still used as factors in risk assessment for many product classes. Big data and the availability of highly individualised datasets has the potential to change this.

Big data is expected to expand the volume and diversity of sources of underwriting data, including from social media, telematics and more in-depth claims data. For example, motor

² PricewaterhouseCoopers (2014), *Deciding with data – How data-driven innovation is fuelling Australia's economic growth*.

vehicle insurers using telematics technology are now able to price risk according to actual driver behaviour as opposed to broader measures of risk such as age. Through the use of in-car technologies, driving habits are identified allowing for pricing on an individual basis. Graph 1 illustrates the potential additional data that could be available to underwriting motor vehicle insurance.

Graph 1



The potential impact of big data on insurance pricing is limitless. Today, insurers largely use historical data to estimate what might happen in the future. Big data has the potential to provide fully dynamic pricing by using real time information about consumer behaviour.

The journey to risk-based pricing has allowed insurers to increasingly focus on an individual's precise risks. For most consumers, pricing that more accurately reflects their risks has been beneficial. This is because lack of data or uncertainty about risk generally leads to conservatism and pricing at the higher end of the spectrum. Lack of appropriate data can also limit the availability of insurance cover in some instances, such as cover for mental health conditions addressed later in this submission. Having comprehensive and accurate data not only reduces cross-subsidisation between consumers, but also provides greater certainty to insurers about the extent of risk they are taking on; reducing the cost and increasing the availability of insurance cover.

It is important to acknowledge that while increasing sophistication of risk-based pricing is a positive development for the community generally, more accurate costing for higher risks will exacerbate affordability and access for some segments of the community. This raises important public policy issues, including the role of government in encouraging better standards in the built environment and risk mitigation and facilitating socially equitable outcomes.

2.2.2. Product innovation

Big data also presents opportunities for product innovation. For existing product classes, big data will help insurers to better understand individual consumer profiles. Telematics technology, for example, will provide the insurer with detailed data on driving behaviour in real-time, and importantly the potential to moderate behaviour and reduce risk through the financial incentive of reduced premiums. Better understanding of individual consumer profiles could also lead to more individualised product design, where the risks being covered are matched with the consumer's risk profile.

There are also opportunities for the industry to develop new products, including those to meet the needs of the sharing economy that has been enabled by big data and also to manage increased cyber risk. Indeed, some insurers have started responding to developments in the sharing economy by expanding insurance coverage to non-traditional activities that are emerging.

Enhanced data capture and analysis capabilities will also provide opportunities to make the purchase process more efficient. For example, highly individualised data can reduce input required of consumers and simplify the application process. Similarly, the claims process can be made more efficient where the use of digital technology can assist in assessing, sharing and verify information more quickly.

2.3. Big Data: Challenges for Industry

While big data presents the industry with opportunities, these also come with challenges.

2.3.1. Privacy

General insurers are regulated under the *Privacy Act 1988* (the Privacy Act), and much of the data collected in the course of providing an insurance quote, issuing a policy or paying an insurance claim would constitute personal information as defined under the Act. However, there are statutory classes of insurance that are regulated at the state level, such as workers compensation insurance, and data collected under these insurance schemes would fall within the purview of state privacy legislation, except for South Australia and Western Australia. Having to navigate the Commonwealth and six other state-based privacy legislation is not only inefficient from a compliance perspective but also confusing for consumers' understanding and enforcement of their rights. The Insurance Council submits that streamlining the separate pieces of legislation should be considered.

As noted in the Issues Paper, big data is expected to raise some uncertainty around how the privacy protections apply, particularly with regard to what constitutes an individual's consent for an organisation to collect and use data collected about them. From an insurance perspective, there is a statutory duty of disclosure and consumers generally have some understanding about the need to disclose certain information to insurers to enable product pricing to be generated, and also, to disclose required information in the event of a claim. With opportunities presented by big data to access data that is "observed", rather than disclosed directly by consumers, such as through online transactions, the usefulness of consent as a safe harbour for accessing and using data will be increasingly tested. Certainty around the extent to which consent applies that is obtained through a consumer's acceptance of the terms and conditions for a service or product may be useful in this regard.

While data security is already an issue that the industry takes seriously, the risk and likely impact of a data breach will be heightened by big data. We note that the Government has consulted on draft legislation, the *Privacy Amendment (Notification of Serious Data Breaches) Exposure Draft Bill 2015*, to replace the current voluntary regime for breach reporting with mandatory reporting of serious data breaches. In its response to the Government's consultation, the Insurance Council supported the introduction of a mandatory breach notification regime. However, its submission noted the need for the threshold for reporting of serious breaches to apply in a manner that provides certainty to business. The need for a pragmatic breach reporting regime is certainly heightened by the risks presented by big data.

The Insurance Council considers that the Privacy Act and the accompanying Australian Privacy Principles (APPs) presents an adequate framework for balancing the benefits from effectively using big data with the need to protect individual privacy. Neither the Privacy Act nor the APPs impose technology specific obligations, and this provides flexibility in addressing the pace and impact of technological change. We agree with the fundamental statement by the Financial System Inquiry (FSI) that efficient data management requires responsiveness and flexibility in managing the availability and use of data.

While big data will certainly present some challenges in the application of privacy legislation, we note that big data analytics service firms are developing commercial solutions that minimise friction with privacy protection. For example, de-identification of data through methods such as data tokenisation minimises the risk of personal information being inappropriately accessed.

While the adequacy of legal protections for individuals is important, we note that an equally important issue for businesses utilising big data, or any data, is to maintain trust in how the data is being collected, stored and used. Without the social license to use this data, the ability for businesses to be able to most effectively harness the benefits of big data will be lost. To earn consumer trust, industry will not only need to demonstrate the benefits of access to and use of big data, but also the values that underpin such use. The initiatives by the Association of British Insurers to communicate the opportunities that come from better access to data and a commitment to use that data with integrity is an example of the importance of industry self-regulation in addressing community concerns³.

2.3.2. Other regulatory issues

The consumer experience with purchasing general insurance products is currently undergoing a transformation; with growing consumer empowerment enabled by widespread use of the internet, interactive digital mobile technology, and social networks. These tools are revolutionising the way consumers are informed of events (about the impact of real time emergencies), wield purchasing power (as buying groups), and influence policy outcomes (with lobbying campaigns). In particular, greater availability of risk data including in relation to natural hazards presents opportunities for insurers to better engage with consumers to inform and to encourage risk mitigation. However, these opportunities are being hampered by the limitations of existing financial services disclosure and advice regulatory regimes.

³ Association of British Insurers (2015), *How data makes insurance work better for you*.

The industry has long-argued that the current regulatory framework unnecessarily constrains its ability to provide simple product and risk information. The current personal advice regime requires onerous training for advisers; a complex needs analysis; and the comprehensive documentation of any recommendations. Consequently, the majority of general insurance is sold on a 'no advice' business model, or where advice is provided, care is taken that it falls within the less onerous definition of 'general advice'.

Compliance with the financial advice regime inevitably focuses training for employees and agents on phrasing information so as to allow them to remain within the definition of the advice model they are operating under, rather than on delivering information that is of the most assistance to the consumer's inquiry. This can produce counterintuitive conversations driven by compliance needs rather than consumer needs. For example, in circumstances where product options have been explained and the consumer asks direct and personal questions such as "what should I do?", it is difficult and counterintuitive not to personalise the response.

An independent Taskforce established by the Insurance Council in 2015 to consider initiatives to enhance product disclosure agreed that the current regulatory regime constrains insurer engagement with consumers. The Effective Disclosure Taskforce recommended⁴ that the industry should work with the Australian Securities and Investments Commission (ASIC) and government to improve the advice regime in order to enable the disclosure of more targeted information to consumers.

Separately, the Government has accepted the FSI recommendation that 'general advice' should be replaced with a more appropriate, consumer-tested term to help reduce consumer misinterpretation and excessive reliance on this type of information. It will be important to ensure that this reform provides an opportunity to reconsider how the general advice regime can be made to work more appropriately for general insurance consumers. A simple re-labelling of the term "general advice" will not address the issues identified here.

3. ACCESS TO PUBLIC SECTOR DATA

The Issues Paper requests feedback on the types of public sector datasets that should be considered high-value data. The Productivity Commission (the Commission) also seeks feedback on the benefits the community would derive from increasing the availability and use of public sector data. This section of our submission identifies public sector data that would benefit from wider accessibility and use, specifically, natural hazard data; building code standards; mental health data; data collected by the Australian Prudential Regulation Authority (APRA) for its National Claims and Policies Database; and driver record data.

3.1. Natural Hazard Data

3.1.1. Types of data, sources and users

The Commission would be well aware of the importance of public sector sources of natural hazard data to a range of community, business and government stakeholders. In its inquiry

⁴ Effective Disclosure Taskforce (2015), *Too Long; Didn't Read. Enhancing general Insurance Disclosure*, Report to the Insurance Council Board.

into natural disaster funding arrangements (the Natural Disaster Funding Inquiry), the Commission concluded that natural hazard information is a key input to risk understanding and risk treatment by all parts of the community. Ultimately, adequate access to, and use of, data ensures that communities, planners, emergency services, individuals, property owners and insurers understand the natural hazard risks that they face, and that effective risk mitigation measures can be undertaken.

While the Commission conducted a comprehensive review into natural hazard data in the Natural Disaster Funding Inquiry, and the Insurance Council made submissions in response to that inquiry, it is worthwhile restating some of the key data issues that are the focus of this inquiry.

The Commission categorised the range of natural hazard data as: foundational data such as asset location, population and topography; hazard-specific data such as bushfire and flood mapping; and data on impacts of past disasters such as insured losses. The data is collected by a range of government (federal, state and local), academic and business sources (including insurers). However, local and state governments, and government-funded research agencies are particularly important sources of foundational and hazard data. Key sources of public sector data include the Bureau of Meteorology, Geosciences Australia, CSIRO and state and local governments for bushfire and flood mapping.

The users of natural hazard data are also diverse, from local government and building authorities to emergency services and community groups. From an insurance perspective, natural hazard data is not only an important source of information to insurers, but also consumers and the community in general. However, the data needs of insurers and consumers differ quite markedly.

Insurers are heavy users of public sector data on natural hazard risks, but they also obtain their own proprietary data in assessing and pricing household risk. Insurers require highly detailed and sophisticated, or high-resolution, hazard data to underwrite and price risk. Examples of high resolution data are digital terrain data and gridded flood surface models for water depth, height and velocity. Insurers typically overlay the public sector data with their own data to generate detailed insights into individual consumer risks; and in this process of further developing the data, the data becomes a commercial asset. The data held by individual insurers will be different, and investments in data acquisition and analysis are used by insurers as a competitive advantage.

Consumers, on the other hand, have limited access to natural hazard data. This is problematic in a number of ways. First, consumers with limited understanding of their exposure to natural hazard risks will be hindered from making informed decisions about the insurance coverage they require and the policies that would best meet their needs. Importantly, individual households and the community in general will not have the required information to take appropriate action to mitigate the natural hazard risks to which they are exposed. The need for more useful public engagement on natural hazard risks is particularly acute for those in high hazard regions, such as bushfire zones. Unlike the high resolution data required by industry, hazard information provided to households needs to be simple and meaningful, as highly technical data is more likely to confuse rather than inform. Meaningful information can positively influence decision-making and adaptation at an individual household level.

3.1.2. Access to and use of hazard data

The Commission, in its Natural Disaster Funding Inquiry, recommended that all levels of government should make new and existing natural hazard data publicly available. Critically, datasets that can be used by many stakeholders for multiple purposes should be the first datasets considered for open access. Foundation datasets that would contribute in this fundamental way, if made openly available, include a nationally consistent geocoded address file, topography data, climate data, demographic data, jurisdictional data and infrastructure data. Open access to this data should be a high priority for the Government.

From our perspective, the absence of a central repository of information presents the most significant barrier to data accessibility. As suggested by the Business Roundtable⁵, a national platform for natural hazard data would improve the quality, availability and accessibility of information in Australia. This would, in turn, create opportunities to convert natural hazard data into useful information that improves the communication of natural hazard risks to better inform decision-making and research in a wide range of areas, including emergency management, land-use planning and insurance. Much of the data needs are common across many sectors, so it is efficient to coordinate the production and dissemination of this information centrally to ensure consistency.

A national data platform would:

- assist communities to understand the hazards that may impact them;
- reduce the duplication of effort between and within jurisdictions;
- improve the efficient transfer of relevant hazard-related information between governments, insurers and communities; and
- better enable the Government to coordinate and prioritise resilience activities across relevant departments and levels of government.

While several states are now publishing hazard-related data in portals that can be accessed by the public, there is little consistency in what data is available, how it is developed, licensing conditions and how it is made available. Initiatives like the Queensland Globe and Open Data VIC are a good first step, however, are not tailored well for general consumer use.

In July 2014, the National Map Open Data initiative was announced by the Minister for Communications. The initiative is intended to provide users with access to a single platform for Government geospatial datasets, including those from the Bureau of Meteorology, Australian Bureau of Statistics and data.gov.au. The Insurance Council suggests that, with little modification, this initiative could be expanded to begin delivering transparent hazard information.

The Commission should recommend using this initiative as a platform to coordinate the consistent delivery of all government geospatial data that has relevance to hazard and risk management. Such a platform should be openly available to all stakeholders, with the resolution of information provided capable of being tailored to each audience. For example,

⁵ Deloitte Access Economics (June 2013), *Building our Nation's Resilience to Natural Disasters*, report commissioned by the Australian Business Roundtable for Disaster Resilience.

households might be able to access simplified data regarding their local hazards; insurers, industry and government agencies would access high-resolution hazard-related data.

3.2. Building Standards

In recent years, the insurance industry has worked to provide greater guidance to consumers purchasing home building insurance on the potential cost of rebuild in the event of a total loss (for example, a home is completely destroyed by a bushfire). Insurers will generally provide consumers with a calculator tool to enable an estimate of the total cost of rebuild to be generated based on consumer inputs around the building's characteristics. Some of these calculators are not visible to consumers, but built into the application process when a quote is generated.

Having an accurate estimate of the potential costs of rebuild is essential to determining a policy's sum insured, which is the total amount that will be paid out by an insurer in the event of total loss. Estimating the potential cost of rebuild is a complex exercise; as many of the determinants of such costs will not be known until after an event has occurred. For example, a total loss event that occurs as a result of a natural catastrophe may be impacted by a surge in building costs as demand for repair and building work increases. Nevertheless, the industry is committed to providing consumers with effective tools and guidance to avoid underinsurance occurring. We have seen the impacts that underinsurance can have on households and community as a whole after a natural catastrophe, such as the Blue Mountains bushfires in 2015.

However, the accuracy of insurer rebuilding estimates is inhibited by a lack of information about the rebuilding standards applicable in each specific location and the reality that these change over time. For example, where bushfire is a prevalent hazard, the local council may introduce new standards on specific land parcels (when building or rebuilding). This information is neither consolidated by local government bodies nor presented in a uniform fashion. With over 500 local councils across Australia, consolidating this data into calculators presents a significant and costly challenge for the industry. Many property owners themselves report they are unaware of changes to applicable standards.

Many calculators now generate increased sum insured estimates to address additional rebuilding costs that may result from new building standards. However, in the absence of a greater level of coordination between local government bodies in communicating changes to building code standards, the industry will struggle to provide comprehensive information to consumers specific to their properties.

The Insurance Council submits that consideration should be given to how local building standards can be centralised and made more accessible to insurers and the general public.

3.3. Mental Health Data

The increasing reported incidence of mental illness in Australia and its impact on individuals, families and communities is an important public policy issue. In Australia, it is estimated that 45 per cent of people will suffer from a mental health condition in their lifetime⁶. We

⁶ Australian Bureau of Statistics (2008), *National Survey of Mental Health and Wellbeing: Summary of Results, 2007*, Cat. No. 4326.0.

recognise the important role the general insurance industry can play in facilitating financially inclusive outcomes; it has made valuable contributions through product innovations for vulnerable communities, such as older Australians and those on lower incomes.

In recent years, there has been an increasing demand for the coverage of general insurance products to be expanded for people suffering from a mental health condition. Travel insurance, for example, is widely available for people with a mental health condition. However, policies will typically not provide them cover for financial losses related to their condition. General insurance policies are risk-based products, and insurers' access to sophisticated data is critical to their ability to assess and price risk that is specific to an individual.

The public sector currently has a large amount of data on mental health, much of which are made publicly available. The key public documents that we are aware of are summarised in Table 1.

Table 1

Publications	Published by
National Survey of Mental Health and Wellbeing	Australian Bureau of Statistics
Survey of Disability, Ageing and Carers	Australian Bureau of Statistics
Psychological Disability	Australian Bureau of Statistics
National Health Survey	Australian Bureau of Statistics
National Aboriginal and Torres Strait Islander Health Survey	Australian Bureau of Statistics
Suicides in Australia	Australian Bureau of Statistics
Mental Health Services of Australia	Australian Institute of Health and Welfare
National Drug Strategy Household Survey	Australian Institute of Health and Welfare
Disability Support Services	Australian Institute of Health and Welfare
Homeless People in Supported Accommodation Assistance Program	Australian Institute of Health and Welfare
National Mental Health Report	Department of Health
Mental Health of Australians	Department of Health
Mental Health of Young People in Australia	Department of Health
Report on Government Services	Steering Committee for Review of Government Services

The Insurance Council has met with the Australian Institute for Health and Welfare, and the following limitations of the various public sector datasets were noted:

- there are no 'neat' data sets; the data is in silos but connections can be seen;
- the classification of mental health conditions differ;
- the datasets do not count individuals but, for example, admissions; and
- datasets are not available over long time periods.

While the Government's Mental Health Information Strategy Standing Committee (MHISSC) aims to produce National Minimum Datasets (NMDs) across all Australian jurisdictions, the data requires a lot of "panel beating" in order to achieve an acceptable level of comparability.

One of the key challenges that insurers face is having the appropriate data at hand to quantify the risks associated with mental health conditions. While public sector datasets are comprehensive, much of this data is not adequate for insurance underwriting. To inform insurance underwriting for mental health conditions, insurers require, similar to assessing physical health conditions, an understanding of the severity of the condition and the likelihood and cost of a claim occurring.

With the data available, there are challenges in capturing what is meant by diagnoses of mild, moderate and severe mental illness. There is also difficulty in estimating further incidences of mental illness occurring, and also the likelihood of a mental illness recurring. Insurers also have no data on the typical recovery duration of mental illness and how that recovery correlates to severity.

In order to create the right conditions for improved access to general insurance for those with a mental illness, more granular data is essential to accurately assess the risk of providing cover for mental illness related claims. It would also be useful to consider standardising the various public datasets on mental health. We believe that it would be beneficial for industry and the Government to work together on developing a work program to access more useful data for the purposes of improving insurers' ability to quantify risks associated with a range of mental health conditions. Enhancements to available data would also contribute to the public's understanding of mental health issues and government policy making. This would be consistent with the Government's objective to further develop the evidence base on mental health conditions, as stated in its response to the National Mental Health Commission's review of mental health programme and services.

The Insurance Council participated in a roundtable on mental health and insurance facilitated by the shadow ministers for health and financial services in March 2016. A suggestion was made that the Australian Government Actuary (AGA) be tasked with assessing the government and industry-sourced data that is available, and additional data that would enable consideration of broader insurance coverage. The Insurance Council is supportive of a project to identify the data the industry needs in order to facilitate consideration of improved access.

3.4. APRA National Claims and Policy Database

The Issues Paper seeks feedback on the benefits and costs of options for increasing availability of public sector data to other public sector agencies, the private sector, research sector, academics and the community. In this regard, the Commission may find useful to know that the Insurance Council is currently exploring with APRA potential improvements that we consider could be made to APRA's National Claims and Policy Database (NCPD).

Created by APRA at the request of the Federal Government and launched in January 2005, the NCPD is a database of policy and claim statistics on professional indemnity and public and product liability insurance. APRA's stated aims of the NCPD are to: provide insurers, the community and State and Federal governments with a better understanding of public and product liability insurance and professional indemnity insurance; and help make these

products more affordable and available by providing insurers with detailed information to help them assess risks and determine appropriate premiums for these insurance products.

APRA is empowered to collect data for the NCPD, under section 13 of the *Financial Sector (Collection of Data) Act 2001*, from all APRA-regulated general insurers that conduct professional indemnity and public or product liability insurance business. We understand that government-owned insurers (public insurers) also contribute data to the NCPD on a voluntary basis.

The Insurance Council recognises the NCPD's positive contribution to the general public's understanding of indemnity and liability insurance. It is a credible source of data on those insurance lines and, with close to fourteen years of available data, provides its diverse range of users a broad spectrum of benefits, such as market trend insights.

However, as mentioned above, we are working with APRA on exploring potential improvements to the NCPD that we consider could be implemented to significantly enhance its usefulness. Given the substantial resources that industry collectively spends on submitting NCPD data to APRA, it should be the goal of all stakeholders to ensure that this database achieves maximum public benefit. Indeed, this should also be the goal of other public sector databases that are publicly accessible.

The Insurance Council has suggested to APRA various potential improvements to the NCPD including, among other things, possible refinements to the classification of NCPD occupation groups. If implemented, refinements to the classification of occupations would provide an enhanced level of data granularity that aligns better with industry's data requirements; this would essentially provide increased access to more granular NCPD data that APRA already collects from regulated insurers.

Such improvements to the NCPD would enable industry observers to conduct more informed analysis on liability and indemnity insurance lines, while governments would be able to base policy decisions on a broader range of data that more accurately reflects the state of the insurance markets. Indeed, improved NCPD data would also help enhance insurers' ability to assess risk and price indemnity and liability insurance products with greater precision.

The Insurance Council notes that its suggested improvements have been developed keeping in mind the key principle that an appropriate balance needs to be maintained between industry's requirements of protecting confidentiality and the wider public interest in the availability of useful output from the NCPD.

3.5. Driving Record Data

For motor vehicle and compulsory third party (CTP) personal injury insurance policies, insurers will typically seek disclosure by consumers of their driving record in order to more accurately price risk. Driving record information includes license demerit points, suspensions, cancellations, disqualifications and restrictions. The provision of this information falls within consumers' duty of disclosure under the *Insurance Contracts Act 1984*; the duty requires a person to disclose relevant information to the insurer before a contract of insurance is entered into. Importantly, non-disclosure of the required information may have an impact on a consumer's ability to make a claim.

Currently, each of the State Governments, through their road and traffic authority, collects and maintains databases recording driver license demerits, suspensions, cancellations, disqualifications and restrictions. Access to these databases, where a consumer has applied for insurance, could enable insurers to verify information provided. This may be beneficial for motor vehicle insurance policies where non-disclosure has occurred due to error, and verification of records at the point of sale would reduce the likelihood that consumers are left uninsured when they need to make a claim.

We note that NSW CTP insurers have had discussions with NSW Roads and Maritime Services (RMS) on the potential for insurers to obtain real time demerit points information through a single information portal. While insurers recognise the benefits of accessing this data, the industry considers that adequately protecting consumer privacy is an important issue that requires thorough consideration. Insurers seeking consumer consent to obtain data is a potential option to ensure that access to data is balanced with the important need to protect individual privacy.

We note that the discussions with NSW RMS, while limited to demerit points data accessed for underwriting CTP personal injury insurance, provides a useful starting point in considering the potential for insurers to access other driver records. The Insurance Council would welcome broader consideration of the potential to obtain access to driver records for the purpose of insurance underwriting.

4. ACCESS TO INSURER DATA

The Commission is seeking feedback on private sector datasets that should be considered to be high value data, and for which availability and use should be increased. Our submission focuses on insurer-held data that has been identified by other stakeholders as potentially valuable.

Increasing the access to insurers' data is a complex issue. As we have already noted, insurers hold detailed and sophisticated data in order to underwrite a range of risks faced by consumers and businesses. Underwriting data is a commercial asset for insurers, and it is also the basis on which insurers compete against each other. Increasing public access to this data will have an impact on incentives to invest in research and data analysis capabilities, which in turn will have adverse consumer outcomes. The FSI noted that any consideration of increased data access needs to carefully assess the impact on commercial incentives for developing datasets.

It is also important to note that insurers may not own all of the data they hold. Insurers that access data from third party providers, with proprietary rights over that data, will be under contractual obligations to keep that data confidential.

The Harper review into competition (the Harper review) observed that the provision of more data will not guarantee that good choices will be made by consumers and that the objective of increasing data access should not simply be to increase the volume of available data. The Insurance Council submits that consideration into increasing data accessibility needs to be looked at on a case-by-case basis and should only be pursued where the expected benefits will outweigh the risks.

4.1. Natural Hazard Risk Data

Community experience with natural catastrophes in recent years has raised concerns about knowledge and preparedness for the natural hazard risks to which individuals are exposed. There have been suggestions that insurers should do more to disclose their assessment of risks specific to individual consumers. In particular, the Commission's Natural Disaster Funding Inquiry observed that consumers would benefit from more information about the natural disaster risks they face and how insurance products can assist them to manage their risks.

However, the provision of natural hazard data to consumers is complicated by the numerous sources of data. Most of the data for flood, fire, cyclone and earthquake hazards is held by the various levels of government. The Insurance Council has played a role in collecting, centralising, and making this data available to insurers. Individual insurers often combine this common data with their own data for use in underwriting, making it commercially sensitive data. Each insurer will apply different methods for measuring risk and this will result in diverging assessments of the same risk. Essentially, there is not a single "source of truth" in assessing a consumer's specific natural hazard risks.

Therefore, while the provision of natural hazard information to consumers is likely to be beneficial, its disclosure by insurers may well lead to consumers receiving inconsistent and conflicting information from different insurers. For example, while one insurer may assess a particular household's flood risk to be medium, another insurer may have more detailed data from past claims experience and assess this same household as a high flood risk. The provision of inconsistent natural hazard data to consumers will create confusion, rather than be informative.

For this reason, the industry believes that the Commonwealth Government is in the best position, and has a responsibility, to provide natural hazard data to the public. A government portal would be a comprehensive, neutral and authoritative source of information. Importantly, consumers would receive a single source of information about their risks, as opposed to multiple and conflicting sources.

An independent taskforce established by the Insurance Council to explore industry initiatives to enhance the effectiveness of disclosure agreed that government-sourced information on natural hazard risks is the most effective and efficient solution. However, in view of the unlikelihood that a government natural hazard portal could be established in the near term, the Effective Disclosure Taskforce recommended that the industry should further consider the role it should play in addressing the information gap.

Through the Insurance Council, the insurance industry has collected and centralised publicly available government hazard data for flood, fire, cyclone and earthquake hazards. Whilst the common data collected is highly technical in its nature, the Insurance Council has developed a framework for the deployment of basic low resolution information to individuals that reflects a consensus view of hazard settings for a particular address. The Insurance Council has now released for beta testing an online application, the *Building Resilience Rating Tool*, which enables individual consumers to input an address to receive basic low resolution information. The tool is intended to help consumers understand how their own home would perform if faced

by local hazards and what aspect of their home might be improved in order to make it more resilient and less likely to suffer damage.

4.2. Consumer Access to Own Data

Both the FSI and Harper review recommended that the potential benefits to consumers of being able to access their own data should be considered. The rationale is that, by accessing data about their consumption behaviour, consumers are better able to assess the value provided by alternative products and to compare products in the market.

However, unlike other products that are “consumed”, insurance transaction data is unlikely to assist consumers to make more informed decisions. A consumer making a claim against a policy might be considered to be the only point at which the product is consumed, and most consumers purchase insurance without an insured event occurring and triggering this point of consumption. This can be compared to a banking transaction product, for example, where bank records on everyday transactions and larger purchases, and the fees incurred for those activities, might provide useful information to consumers in considering alternative products. From an insurance point of view, consumer knowledge about their own risks, and the different options available in the market for covering that risk, represents the most valuable information to a consumer.

The voluntary Midata initiative in the United Kingdom, launched in November 2011, provides a useful framework for considering how consumption data might be used. The objective of Midata is to provide access to consumers to the information that companies hold about their transactions in a machine-readable and reusable format. The intention is that this will make it easier to compare the different offers available. The sectors involved include energy, personal current accounts, credit cards and mobile phones. We note that these are sectors where consumers have long term, frequent interactions with service suppliers and where detailed transaction data is generated.

This differs markedly to how consumers would interact with insurers, where there is limited useful consumption-type data that is created. As such, while consumer access to their own consumption behaviour data might be useful for other sectors, the data contemplated is not as relevant to the general insurance sector.

We note that as part of its review into enhanced product disclosure, the Insurance Council’s Effective Disclosure Taskforce recommended that the industry should trial the provision to renewing customers of the previous year’s premium. The rationale for disclosing the previous year’s premium is that any significant increase in premiums is transparent to the consumer, and would encourage consumers to shop around. The Insurance Council will shortly commence a project to facilitate trialling of this disclosure.

4.3. Access to Product and Pricing Data

The FSI considered that access to private sector data could better enable price comparison websites (PCWs) to service consumers. A number of PCWs currently operate in the motor vehicle insurance market. There are also government PCWs servicing consumers purchasing compulsory third party personal injury insurance and a specific website administered by ASIC to help consumers in North Queensland compare home insurance policies. The coverage of other general insurance products appears to be more limited.

The general insurance industry is well aware of the issues that consumers may face in being able to compare products in an efficient and timely manner. A study commissioned by the Insurance Council found that consumers can face barriers to comparing products using Product Disclosure Statements (PDSs), including variations in the⁷:

- terminology and definitions used;
- presentation of inclusions and exclusions;
- packaging of policy documents (e.g. PDSs vary in whether home and contents policies are within the 1 or 2 documents);
- style of presentation; and
- the structure of cover (e.g. how the events are organised).

While we acknowledge that PCWs enables more efficient comparison of the price of competing products, the overall benefits to consumers need to be carefully considered. In particular, concerns exist that information on key aspects of an insurance policy other than price (such as terms and cover arrangements) which are intrinsic to the insurance offer may not be adequately presented.

A report by the Australian Consumer and Competition Commission (ACCC) on the PCW industry in Australia found that the simplification of information can decrease the transparency of important differences between products and policies⁸. The findings from a Financial Conduct Authority (FCA) review into PCWs in the UK insurance sector also found the simplification of products on PCWs fuelled perceptions that all products are the same and discouraged consumers from obtaining knowledge on products. Concerns also arise where PCWs favour specific products without informing consumers of their financial links to particular product providers.

We note that the potential to use the internet as a distribution channel has strengthened competition in the insurance market. Traditionally, insurers needed extensive distribution networks in order to attract and service their customers. This has led to the development of new business models and enriched competition by making it easier for new players to enter the market. The success of new online insurance providers provides evidence of the success of these new business models. Research by Finity/Deutsche Bank suggests that competition in personal lines is growing, with challenger brands and those of the major banks estimated to have 16 per cent market share currently, up from an estimated share of 10 per cent three years ago.⁹

While motor vehicle insurance policies respond well to aggregation on a PCW due to their common and homogenous characteristics, this is generally not the case for most other insurance classes. How home insurance policies are priced, for example, is dependent on the unique circumstances of each property's location, design, materials and age. We note that the ASIC-run North Queensland comparison website for home insurance does not provide actual pricing, but rather, indicative pricing to consumers. Our understanding is that, since its launch in 2015, the website has attracted limited consumer interest.

⁷ The Allen Consulting Group (June 2009), *A better Product Disclosure Statement Regime. A roadmap for improvement*, report to the Insurance Council of Australia.

⁸ ACCC (November 2014), *The Comparator Website Industry in Australia*.

⁹ Finity/Deutsche Bank (25 July 2014), *Industry Pendulum*.

The independent Effective Disclosure Taskforce established by the Insurance Council to explore initiatives to enhance product disclosure considered that disclosure should aim to facilitate effective product comparisons by consumers. The Taskforce considered that any change that would drive consumer switching behaviour based purely on price could cause a race to the bottom and ultimately reduce the cover made available to consumers, as was the experience in the UK insurance industry. The Taskforce therefore recommended that the industry conduct its own review of comparability options to identify methods of improving consumer understanding of coverage differences between products. This recommendation was endorsed by the Insurance Council's Board, and this work stream will commence in 2017.

The Insurance Council is not supportive of any regulatory mandate for insurers to provide data to PCWs. Any facilitated development of PCWs through explicit government intervention would represent a form of "infant industry" protection not afforded to other forms of intermediation.