

23 March 2018

Competition in the Australian Financial System Inquiry  
Productivity Commission  
GPO Box 1428  
CANBERRA CITY ACT 2601

Dear Sir/Madam

## **Competition in the Australian Financial System – Draft Report**

Suncorp Group (Suncorp) welcomes the opportunity to provide feedback on the Productivity Commission's Draft Report into Competition in the Australian Financial System. As an ASX 20 company with a customer offering spanning general insurance, life insurance, banking and wealth products, we have a keen interest in the stability of Australia's financial system.

This brief submission is made on behalf of our General Insurance business and addresses the following:

- The proactive actions being taken by the insurance industry to improve customer outcomes, choice and competition;
- The strong, sustainable and competitive nature of the general insurance industry which has served customers well through a highly effective direct distribution model;
- The importance of improving transparency through measures that have a strong evidence base and are proven to promote understanding and choice; and
- Suncorp's view on specific recommendations within the Productivity Commission's Draft Report.

### **Recent Reform**

In recent years the industry, in collaboration with government, has undertaken a significant level of reform to not only improve customer outcomes but also increase competition and choice. Examples include:

- In 2018 the insurance industry will implement a new and revised General Insurance Code of Practice. The new Code will incorporate recommendations from recent inquiries, include provisions for customers experiencing domestic violence or hardship and will be written in plain English to improve consumer understanding. Together these will set a new benchmark in industry self-regulation.
- For a number of years, Suncorp has been advocating for investment in resilience building measures as well as providing benefits to customers for natural disaster mitigation. Since 2016 more than 35,000 customers in North Queensland who have undertaken mitigation work on their home have received reductions in premiums. This is reducing the cost of insurance, improving affordability as risk is reduced and, importantly, making communities safer through mitigation.
- In 2017, Suncorp set up the Office of the Customer Advocate. The Office works proactively across banking, wealth and insurance to drive better outcomes and experiences for Suncorp's customers. It has the power to recommend and instigate changes to our current processes, identify areas for improvement and make it easier for customers when things go wrong. A key program of work currently underway has been improving our understanding and support for customers experiencing hardship.

These reforms and those being pursued by governments will continue to improve the stability and fairness of the general insurance market.

## Competition in the General Insurance market

The Australian insurance industry is strong, sustainable and competitive. As highlighted by the Australian Government Actuary (AGA) in a 2014 report, competitive markets tend to deliver good price outcomes for consumers.<sup>1</sup> The insurance market is already extremely competitive, with new players emerging constantly. There are currently around 115 authorised general insurance providers operating in Australia.<sup>2</sup> This number will continue to grow as technical and digital innovators and disruptors enter the market.

Further, the Financial Systems Inquiry (FSI) confirmed that the general insurance sector is not only competitive, but stable and well managed. The FSI found that significant reforms had already taken place in the insurance market following the demise of HIH Insurance in 2001, and beyond that, there was no compelling case to further change stability settings in insurance.

In their recent analysis of the general insurance industry Finity (Actuaries) very clearly outlined the competitive pressures facing the household portfolio line.

“With competitive pressures maintained (including an increasing – though slowing – growth in the market share of challenger brands) and the ongoing shift in mix towards units rather than houses (with units having a much lower propensity to insure contents) we believe that growth in the overall premium pool will remain restrained”<sup>3</sup>

The story is similar for the motor book which has been experiencing low returns due to high levels of competition and a challenging claims environment. Finity (Actuaries) made the following observations on the motor book.

“After years of profitability there has been a sharp turn downwards in Private Motor. The APRA reported loss ratio for FY17 blew out a further two points to 78% - up six points since FY14. With expense ratios also creeping up year on year (up almost two points since FY14), FY17 saw an underwriting loss reported in this class for the first time in many years. We estimate FY17 ROEs of around 5% only, a far cry from 20%+ ROEs this class enjoyed a few years back.”<sup>4</sup>

It is also often acknowledged that the insurance industry will face intense disruption as start-ups and new market entrants find new ways to package products, assess risk and develop innovative distribution channels. KPMG has written extensively on the emerging technologies and the impact it will have on competition within the general insurance market.

“Insurance is an industry ripe for disruption. Insurers around the world are struggling with a myriad of challenges: low levels of customer trust, high competition, a low interest rate environment, shrinking profitability, and legacy IT issues.

Over the next 2 years, the standout market force influencing the transformation of Australia’s insurance industry is disruptive innovation. In a highly competitive environment insurtech companies are shaking up traditional ways of doing business. Insurers must innovate or risk being left behind.”<sup>5</sup>

The number of new entrants during the past ten years has impacted the market share of incumbents, leading us to reconfigure and consistently strive to improve value for customers. Suncorp welcomes this disruption and innovation and is actively changing the way we operate to compete for business and remain relevant to customers.

## Transparency measures

We note the Commission’s recommendations around transparency in general insurance.

Suncorp is supportive of measures aimed at increasing transparency. However, it is important that additional information provided to consumers is meaningful and assists in their decision-making process. It is important that

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<sup>1</sup> Australian Government, Australian Government Actuary: *Second Report On Investigation into Strata Title Insurance Price Rises in North Queensland*, Canberra 2014

<sup>2</sup> APRA *General Insurance Institution-level Statistics*, Sydney, 2016

<sup>3</sup> Finity Consulting, *Optima Lite 2017*, Page 7. [http://www.finity.com.au/wp-content/uploads/2017/10/Optima\\_lite\\_2017\\_web.pdf](http://www.finity.com.au/wp-content/uploads/2017/10/Optima_lite_2017_web.pdf)

<sup>4</sup> Finity Consulting, *Optima Lite 2017*, Page 6. [http://www.finity.com.au/wp-content/uploads/2017/10/Optima\\_lite\\_2017\\_web.pdf](http://www.finity.com.au/wp-content/uploads/2017/10/Optima_lite_2017_web.pdf)

<sup>5</sup> KPMG, *General Insurance Industry Review*, Page 13 <https://assets.kpmg.com/content/dam/kpmg/au/pdf/2017/general-insurance-industry-review-2017.pdf>

new disclosure and transparency measures are tested to ensure they are actually improving customer understanding and outcomes.

Suncorp is constantly working to find better ways to communicate with our customers. Our award-winning product Essentials by AAI has an animated video designed with customers that supports the Product Disclosure Statement and we have invested in an automatic sum-insured calculator to help tackle underinsurance.

Suncorp is also working closely with the Insurance Council of Australia and other insurers to improve the way information is provided to customers. Several projects are underway to build on the findings from the Insurance Council's Effective Disclosure research.

### **Draft Recommendation 11.2 – Transparency on insurance underwriting**

Research by the Insurance Council of Australia indicates that almost 70 per cent of customers compared policies between brands at renewal time. We encourage customers to shop around and get the best deal on products that suit their needs and level of comfort with risk.

Suncorp does offer insurance products across several brands, but our brands offer different features and benefits and target different market segments.

For example, AAMI offers Complete Replacement Cover in home insurance policies to help customers manage potential underinsurance, and Shannons products are specifically designed for motoring enthusiasts.

In addition, as part of Suncorp's new strategy to develop a Marketplace for financial services we are actively encouraging our customers to better understand our product offering and how it can address their varying needs. We are already bringing greater transparency on ownership of our brands and working to improve and simplify disclosure requirements to make it easier for our customers to understand our products. In our view further regulation in this space is unnecessary as the industry is well progressed in driving change.

### **Draft Recommendation 11.1 – Comparative pricing information on insurance renewal notices**

In principle, Suncorp supports a move toward providing the previous year's premium as part of a customer's renewal documents. Suncorp has already committed to providing this information for our NSW customers.

While we support the disclosure of a previous years' premiums, once again it is important that this is done in a way that provides useful information, and context, to assist consumers in their decision-making process.

There are a range of reasons why a customer's premium may vary on renewal. They may have renovated their home, changed how their home is being occupied or changed their level of cover/excess. Providing dollar figures without context can be confusing for customers, and may lead to them making decisions based purely on price rather than ensuring they have the right cover.

We will closely monitor customers' response to this new information and continue to refine our approach.

## **Other recommendations relating to General Insurance**

### **Draft Recommendation 11.3 – Distortionary Insurance Taxes**

Suncorp strongly supports the Commission's draft recommendation regarding the removal of state and territory taxes and levies from insurance premiums.

As the Commission notes, insurance taxes can have a significant impact on insurance affordability. The application of multiple taxes, charged on top of each other, can add a significant multiplier to any premium increase by insurers.

In the case of Queensland, the Commonwealth Government's 10 per cent GST is added before the State Government's nine per cent stamp duty. The stamp duty is effectively charged on 110 per cent of the base

premium. A \$2,500 home insurance technical premium becomes a \$2,997.50 premium once these charges are applied.

Removal of inefficient state and territory taxes would provide rapid relief to many households struggling with insurance affordability.

#### **Draft Recommendation 12.1 and Information Request 12.2 – General Advice**

Suncorp welcomes the Productivity Commission's interest in investigating the efficiency of 'General Advice'. The current scheme does not facilitate the best consumer outcomes and often leaves frontline staff with the difficult task of assisting the customer without veering into personal advice.

Suncorp would welcome reforms to the advice model to enable insurers to provide more tailored information to consumers.

#### **Draft Recommendation 14.1 – Deferred Sales Model**

Suncorp supports the introduction of a deferred sales model for the sale of add-on insurance through car dealers. We have been working closely with industry and ASIC to develop an optimal model for the implementation of deferred sales.

#### **Conclusion**

Thank you for the opportunity to contribute additional information to the Commission. Should you have any questions or require further information, please do not hesitate to contact Jonathan Davies, Senior Manager – Government, Industry and Public Policy

Regards,

**Gary Dransfield**  
CEO, Insurance