



Australian Government
The Treasury

TSY/AU

DISCLOSURE IN GENERAL INSURANCE: IMPROVING CONSUMER UNDERSTANDING

Discussion Paper
January 2019

© Commonwealth of Australia 2018

This publication is available for your use under a [Creative Commons Attribution 3.0 Australia](http://creativecommons.org/licenses/by/3.0/au/legalcode) licence, with the exception of the Commonwealth Coat of Arms, the Treasury logo, photographs, images, signatures and where otherwise stated. The full licence terms are available from <http://creativecommons.org/licenses/by/3.0/au/legalcode>.



Use of Treasury material under a [Creative Commons Attribution 3.0 Australia](http://creativecommons.org/licenses/by/3.0/au/legalcode) licence requires you to attribute the work (but not in any way that suggests that the Treasury endorses you or your use of the work).

Treasury material used 'as supplied'.

Provided you have not modified or transformed Treasury material in any way including, for example, by changing the Treasury text; calculating percentage changes; graphing or charting data; or deriving new statistics from published Treasury statistics — then Treasury prefers the following attribution:

Source: The Australian Government the Treasury.

Derivative material

If you have modified or transformed Treasury material, or derived new material from those of the Treasury in any way, then Treasury prefers the following attribution:

Based on The Australian Government the Treasury data.

Use of the Coat of Arms

The terms under which the Coat of Arms can be used are set out on the It's an Honour website (see www.itsanhonour.gov.au).

Other uses

Enquiries regarding this licence and any other use of this document are welcome at:

Manager
Media and Speeches Unit
The Treasury
Langton Crescent
Parkes ACT 2600
Email: medialiaison@treasury.gov.au

Contents

- Consultation Process1**
- Introduction.....2**
- Previous work on disclosure in insurance3**
 - Financial System Inquiry.....3
 - 2017 Senate Economics References Committee’s Inquiry into the general insurance industry4
 - Industry research.....5
 - Australian Securities and Investments Commission research5
 - Behavioural insights7
 - International developments.....7
- Issues for discussion9**
 - Premium increases and component pricing included in renewal notices9
 - Standard cover – is the current disclosure regime efficient?13
 - Standardised definition of key terms16
 - Review of the Key Facts Sheet18
 - A modern approach to disclosure20

Consultation Process

Request for feedback and comments

Interested parties are invited to comment on this consultation paper. While submissions may be lodged electronically or by post, electronic lodgement is preferred. For accessibility reasons, please submit responses sent via email in a Word or RTF format. An additional PDF version may also be submitted. All information (including name and address details) contained in submissions will be made available to the public on the Treasury website unless you indicate that you would like all or part of your submission to remain in confidence. Automatically generated confidentiality statements in emails are not sufficient for this purpose. If you would like only part of your submission to remain confidential, please provide this information clearly marked as such in a separate attachment.

Closing date for submissions: 28 February 2019

Email	Insurancedisclosure@treasury.gov.au
Mail	Manager Insurance and Financial Services Unit The Treasury Langton Crescent PARKES ACT 2600
Enquiries	Enquiries can be initially directed to Insurancedisclosure@treasury.gov.au
Phone	02 6263 2111

Introduction

A fair and well-functioning insurance sector requires consumers to be well-informed. Consumers' ability to make efficient and appropriate choices with respect to insurance can be enhanced by the availability and accessibility of relevant information disclosed. Conversely, a lack of transparency or effective disclosure practices makes it harder for consumers to make informed decisions about products to meet their needs.

The critical importance of effective disclosure is an area on which consumer advocates and industry all agree. And it is not merely that information is disclosed to consumers, but that information is presented in a way that improves the consumer's capacity to make informed and appropriate decisions about the insurance coverage they purchase. The risks of ineffective disclosure include inadvertent underinsurance, lack of understanding of the insurance product purchased and purchase of an insurance cover which does not serve its purpose.

The Senate Economics References Committee released its report (the Senate report) into the general insurance industry in August 2017.¹ The report made 15 recommendations on a range of issues, including the transparency of pricing, disclosure and competition in the general insurance industry.

In releasing the Government's response to the Senate report, the Minister for Revenue and Financial Services announced on 18 December 2017 that the Government would task the Treasury with developing proposals to improve consumers' understanding and access to information through better transparency and enhanced disclosure practices in the insurance sector.

This discussion paper follows the Minister's announcement and seeks stakeholder views on the underlying issues and objectives behind the recommendations made in the Senate report that relate to the disclosure regime. Those recommendations are:

- Strengthening the transparency of general insurance pricing by amending the product disclosure regime in the *Corporations Act 2001* (Corporations Act) to require insurers to:
 - Disclose the previous year's premium on insurance renewal notices; and
 - Explain premium increases when a request is received from a policyholder.
- Reviewing component pricing to establish a framework for amending the Corporations Act to provide component pricing of premiums to policyholders upon them taking out or renewing an insurance policy, as well as an assessment of the benefits and risks to making such a change.
- Reviewing the current standard cover regime with a particular regard to the efficacy of current disclosure requirements.
- Working with industry and consumer groups to develop and implement standardised definitions of key terms for general insurance.
- Reviewing the utility of Key Facts Sheets (KFS) as a means of product disclosure, with particular regard to the:
 - Effectiveness of the KFS in improving consumer understanding of home building and contents policies; and
 - Merit of extending the use of KFSs to other forms of general insurance.

¹ Senate Economic Reference Committee, August 2017, *Australia's general insurance industry: sapping consumers of the will to compare*, available:

[https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Generalinsurance/~media/Committees/economics_ctte/Generalinsurance/report.pdf](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Generalinsurance/~/media/Committees/economics_ctte/Generalinsurance/report.pdf)

In addition the paper seeks views about how different approaches to disclosure could be developed that make use of emerging technology.

Responses to the questions posed in the paper will assist in defining proposals to enable the Government to use regulatory tools to achieve its objectives and to identify the actions industry can take. Responses may also be used to inform the Government's response to the Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Previous work on disclosure in insurance

The disclosure regime for the insurance sector has been the subject of a number of recent inquiries, with the balance of those inquiries supporting changes to disclosure requirements and practices in the insurance sector to enhance consumer understanding and decision-making.

The principal means of disclosure for retail classes of general insurance, including home and motor policies, is the mandated provision of a Product Disclosure Statement (PDS) to a consumer at the point of sale.

The current product disclosure regime for general insurance was first introduced as part of the broader Financial Services Reforms (FSR) in 2001. The objective of these reforms was to consolidate regulation of the financial services sector and, by extension, give consumers a more consistent framework of consumer protection in which to make their financial decisions. The new disclosure regime aimed to supplement, but not replace, the disclosure requirements already existing under the *Insurance Contracts Act 1984* (Insurance Contracts Act).

Under the current disclosure regime, insurers are obliged to comply with a number of mandatory requirements, as set out in Chapter 7 of the Corporations Act. For sales to a consumer, insurers must provide a PDS. The Corporations Act also prescribes the content that is required to be included in a general insurance PDS. In broad terms, a PDS must provide information about the features and benefits of the policy being sold, including its terms, conditions, limits and exclusions.

When insurance is sold through an insurer directly or through an intermediary, such as an insurance broker, a Financial Services Guide (FSG) must be provided to the consumer. The FSG must disclose information about the financial services offered, remuneration arrangements, and any potential conflicts of interest. For general insurance policies, the FSG can be combined with the PDS in a single document.²

Financial System Inquiry

The Financial System Inquiry (FSI) report released on 7 December 2014 broadly examined the issue of disclosure in the financial sector, and more specifically in relation to improving guidance and disclosure in the general insurance sector.³ The FSI report noted that product disclosure plays an important part in establishing the contract between insurers and consumers. However, in itself, mandated disclosure is not sufficient to allow consumers to make informed decisions. Disclosure can be ineffective for a number of reasons, including consumer disengagement, complexity of documents and products, behavioural biases, misaligned interests, and low financial literacy.

² Senate Economic Reference Committee, August 2017, *Australia's general insurance industry: sapping consumers of the will to compare*, page 28, available: https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Generalinsurance/~/media/Committees/economics_ctte/Generalinsurance/report.pdf

³ The Australian Government the Treasury, November 2014, *Financial System Inquiry Final Report*, available: http://fsi.gov.au/files/2014/12/FSI_Final_Report_Consolidated20141210.pdf

The FSI specifically commented that while general insurance has a bespoke product disclosure regime (on top of the general disclosure requirements for financial products under the Corporations Act), the industry lacks a standard practice in describing a policy's key features and exclusions that correlate with the risk that consumers will not understand the policy.

The FSI recommended improving guidance and disclosure in general insurance to meet its objectives to reduce the incidence of inadvertent underinsurance by assisting consumers to make informed decisions about the sum insured, increasing the ability of consumers to make informed decisions when deciding on an insurance product and enhancing consumer understanding of insurance policies.⁴ Those objectives align with the basis of the issues raised in this paper. The FSI also tasked the general insurance industry with completing its work on reducing complexity and facilitating consumer understanding of key features and exclusions, including relevant consumer testing.

The FSI also considered that innovative approaches to disclosure can improve consumer engagement and understanding, and that the industry should pursue innovative disclosure and alternative forms of communication⁵. With the developments in technology, such as those enabling online financial services, consumer expectations have changed but the current disclosure regime inhibits the ability of firms to meet these expectations.

A digital approach to disclosure has the potential to make it easier for businesses to deliver financial services disclosure electronically while preserving choices for consumers. Electronic disclosure reduces costs for financial services providers and enables them to better align their disclosure with consumer preferences. For example, information could be presented in an interactive or video form and online tools offered to consumers to assess their understanding of a product.

2017 Senate Economics References Committee's Inquiry into the general insurance industry

Information asymmetry arises wherever one party to an economic transaction has more or better information than the other party. In insurance, information asymmetries can hinder the insured's decision-making because of their lack of understanding about premium pricing, policy coverage and personal risk.⁶ This in turn, leads to poor consumer outcomes, either in the form of inflated premiums, underinsurance, or coverage that is inappropriate for their needs.

Examples of information asymmetries are where:

1. Consumers cannot access the information they need; or
2. Consumers have access to relevant information, but not in a usable format; for example, it may be too complex for the consumer to understand.

The Senate Committee singled out the complexity of information as a particular concern. General insurance products are based on complex risk assessments and consumer behaviours can limit their ability to process and act on information. The traditional assumption underpinning the current disclosure regime that more information is better for consumers, leading to bloated disclosure documents, need not be correct.

⁴ Ibid., recommendation 26, page 227.

⁵ Ibid., page 215.

⁶ Senate Economic Reference Committee, August 2017, *Australia's general insurance industry: sapping consumers of the will to compare*, page 27, available:

[https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Generalinsurance/~media/Committees/economics_ctte/Generalinsurance/report.pdf](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Generalinsurance/~/media/Committees/economics_ctte/Generalinsurance/report.pdf)

The concerns the Committee maintained around the information asymmetry between insurers and insured fed directly into their recommendations. These are the focus of this paper.

Industry research

The insurance industry, led by the Insurance Council of Australia (ICA), has undertaken a number of studies on improving disclosure for general insurance. The ICA released a paper titled *Too long: Didn't Read: Enhancing General Insurance Disclosure* (TLDR paper) in October 2015.⁷ A central finding of the ICA's report was the lack of literature and research into how consumers make decisions about their insurance needs and the impact of disclosure on this decision-making.

The TLDR paper noted that the current disclosure framework may be limited by its focus on the provision of information rather than the consumer's ability to make use of that information to purchase a general insurance policy suited to their needs. Information which encourages informed decision-making should be targeted and timely; it also needs to be appropriate to the needs of consumers at the particular stage in the insurance process. For example, consumers require different information at the point of sale as compared to claims stage.

The paper recommended moving away from a focus on the minimum requirements of the mandated disclosure regime and towards best practice transparency. Principles around best practice transparency should be developed over time as insurers learn from trialling new and innovative ways of providing information.

In the same vein as its 2015 report, the ICA released a report on *Consumer Research on General Insurance Product Disclosures* (Consumer Research report) in February 2017.⁸ The report made five key findings:

- There is no single pathway to purchase insurance and the use of information in decision-making is highly varied;
- While most consumers report they have evaluated the details of their policy, most do not access the PDS;
- While most consumers are confident in their understanding, comprehension appears to be poor;
- Many consumers do not consider the specific risks for which they need to purchase cover as a criterion for decision-making; and
- The accessibility of the PDS can be improved, although there are other opportunities for stronger consumer engagement.

Australian Securities and Investments Commission research

The Australian Securities and Investments Commission (ASIC) has undertaken research on disclosure to help ensure that the disclosure provided to consumers is effective, and to identify any areas for

⁷ Insurance Council of Australia, October 2015, *Too Long Didn't Read: Enhancing General Insurance Disclosure*, available: <http://www.insurancecouncil.com.au/assets/Effective%20Disclosure%20Report.pdf>

⁸ Insurance Council of Australia, February 2017, *Consumer Research on General Insurance Product Disclosures: Research findings report*, available: http://www.insurancecouncil.com.au/assets/report/2017_02_Effective%20Disclosure%20Research%20Report.pdf

improvements. ASIC undertook a review of the sale of home building insurance in 2014.⁹ The purpose of the review was to understand the information that consumers receive about home insurance at the point of sale and encourage insurers to adopt practices that reduce the risk of consumers buying insurance that does not meet their needs, through examining consumers' experiences when inquiring about or purchasing home insurance.

The review found that the sales processes are generally designed around insurers' need to understand certain risk or underwriting criteria about consumers so that they can sell home insurance quickly and efficiently to a consumer, rather than improving a consumer's understanding of the home insurance they are inquiring about. Insurers see that as the role of the PDS and other important documents, such as the certificate of insurance.

Around the same time of this review, ASIC commissioned consumer research into consumer behaviour when purchasing insurance.¹⁰ The research noted the findings of an online survey which asked consumers if they read or looked at the PDS when buying home building insurance. The survey found that two in every ten consumers who took out new insurance or considered switching read the PDS. However, the qualitative research undertaken as part of the review found that 'reading' the PDS generally meant reading selected pages, not all of it. The other key findings of the consumer research include that, despite the disclosure provided:

- In general, consumers knew very little about the details of their home insurance policy.
- When the search process gets complex, for example because of the number of options to compare, consumers will make the decision in a way that placed the least load on their cognitive and time resources.
- Consumers had difficulty in accurately assessing risks that may apply to them.¹¹

ASIC's research also highlighted the limitations of disclosure.¹² The rationale for relying on disclosure to protect and empower consumers assumes that consumers are rational decision makers who, when given information about a financial product, will be able to read it and, as a result of doing so, understand the product.

In its submission to the FSI, ASIC noted that while disclosure is necessary for arming consumers with key information to guide decision making, certain limitations mean that it is not sufficient for this task. Also, a person's knowledge, experience and cognitive biases will affect exactly how they use that disclosure of information.¹³

⁹ Australian Securities and Investments Commission, October 2014, *Review of the sale of home insurance*, available:

<https://download.asic.gov.au/media/2195188/rep415-published-28-october-2014.pdf>

¹⁰ Australian Securities and Investments Commission, October 2014, *Insuring your home: Consumers' experiences buying home insurance*, available:

<https://download.asic.gov.au/media/2195187/rep416-published-28-october-2014.pdf>

¹¹ Ibid.

¹² Australian Securities and Investments Commission, October 2014, *Review of the sale of home insurance*, page 8, available:

<https://download.asic.gov.au/media/2195188/rep415-published-28-october-2014.pdf>

¹³ Australian Securities and Investments Commission, April 2014, Financial System Inquiry: Submission by the Australian Securities and Investments Commission, page 31-32, available:

<https://download.asic.gov.au/media/1311553/ASIC-submission-to-the-Financial-System-Inquiry-4-April-2014-1.pdf>

Behavioural insights

The United Kingdom Financial Conduct Authority (FCA) published a paper on applying behavioural economics and identified information asymmetry is one of the key reasons why financial markets fail and require regulators to intervene. The paper highlighted that regulatory interventions to correct information asymmetry in the presence of biased consumers can introduce the following complications:

- When consumers lack relevant information, it may be difficult to establish what the significant cause of the problem is;
- Behavioural bias can render regulatory intervention aimed at addressing information asymmetries ineffective and potentially harmful; and
- Interventions to address behavioural biases can potentially exacerbate the information asymmetry problem.¹⁴

The benefit of applying behavioural economics allows identified causes of behavioural bias to be addressed through less restrictive regulations. The use of well-designed prompts rather than additional restrictions imposed through legislation could trigger behaviours that will align with policy goals.¹⁵ These ‘nudges’ are presented as alternative options that could potentially achieve better policy outcomes.

In response to poor decision making by behaviourally biased consumers, the paper highlighted that provision of better information could be one way to intervene to protect consumers. Behavioural insights can help in formulating design of better targeted information that addresses certain consumer bias.

Another intervention method that could help protect consumers is to change the choice environment. Based on observed consumer behavioural bias, choices presented to consumers can be adjusted so that consumers are ‘nudged’ into making the better choice. For example, some consumers are more likely to choose the default (opted-in) option of the specific product. The choice environment could be manipulated so that by changing the default option, it would ‘nudge’ consumers into choosing the better option.

International developments

International research has focussed on disclosure for banking and financial service products, with limited international research into effective pre-contractual disclosure for insurance products, as noted in the TLDR paper.

The discussions about the barriers to effective disclosure in the United States (US) are broadly attributed to the following three categories:¹⁶

- Product understanding: to give consumers understanding of the products offered to them to guide their choice.

¹⁴ Erta K. et al. April 2013, *Applying behavioural economics at the Financial Conduct Authority*, occasional paper no. 1, page 24-25, available: <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-1.pdf>

¹⁵ Ibid, page 43.

¹⁶ Kirsch, L. 2002, *Do product disclosures inform and safeguard insurance policyholders?*, Journal of Insurance Regulation, vol. 20, no. 3, page 271-295, available: <https://search.proquest.com/docview/204947414/fulltextPDF/A715294F1CFB4661PQ/1?accountid=46495>

- Comparison shopping: to provide means for consumers to conduct price, product and quality comparisons. Fairness and transparency: to ensure insurers provide full and accurate information to consumers that allows consumer understanding and accurate interpretation of relevant issues.

Kirsch's study on effective disclosure in 2002 suggests consumers use product information more effectively if they perceive the cost of searching and processing such information to be relatively low compared to its benefit. The volume of complex information presented in the PDS is sufficient to prompt consumers to perceive the cost of searching and processing the material in a PDS to be greater than its benefits.

In 2005, a US based study used three focus groups to explore the effectiveness of disclosure as a means for consumers to understand insurance when purchasing it.¹⁷ The conclusion of the study was that there is poor consumer understanding of insurance and that most do not read the PDS when purchasing insurance. The results suggest a shorter version providing less information and use of less technical jargon with concrete examples would improve consumers' understanding of the disclosure material.

A UK based experimental study in 2010 provided evidence that the provision of disclosure information does not affect the likelihood of purchasing insurance. The study explored the effect of disclosure in the sale of payment protection insurance.¹⁸ The results found that trust is a significant contributing factor to the likelihood of a consumer purchasing insurance. The study argued that a trusting consumer is more likely to be persuaded during the sales process.

Further international research on specific issues relating to the recommendations of the Senate Committee Inquiry will be discussed within the individual sections below.

¹⁷ Cude B. 2005, *Insurance disclosures: an effective mechanism to increase consumers' insurance market power*, Journal of Insurance Regulation, vol. 24, no. 2, page 57-80, available:

<https://search.proquest.com/docview/204912462/fulltextPDF/AF1829123F734556PQ/1?accountid=46495>

¹⁸ De Meza et al. 2010, *Disclosure, trust and persuasion in insurance markets*, Institution for the Study of Labor Discussion Paper No. 5060, available: <https://www.econstor.eu/bitstream/10419/44227/1/638491770.pdf>

Issues for discussion

The Senate Committee made a number of recommendations that were accepted by the Government.¹⁹ These recommendations are discussed further below. Views are sought from stakeholders and other interested parties on the issues for discussion.

Premium increases and component pricing included in renewal notices

Recommendations

- Strengthening the transparency of general insurance pricing by amending the product disclosure regime in the Corporations Act to require insurers to:
 - Disclose the previous year’s premium on insurance renewal notices; and
 - Explain premium increases when a request is received from a policyholder.
- Initiate a review of component pricing to establish a framework for amending the Corporations Act to provide component pricing of premiums to policy-holders upon them taking out or renewing an insurance policy, as well as an assessment of the benefits and risks to making such a change.

Objective

To enhance the comparability of products and specifically, to enhance the transparency around any premium changes when an insurance contract is up for renewal.

Industry views

Sharing public and political concern at the potential for poor consumer outcomes, the general insurance industry is responding to the need for improvements in the disclosure regime. There now appears to be broad industry support for disclosure of past year’s premium. The ICA established the Effective Disclosure Taskforce in 2015 to investigate and develop initiatives for improving product disclosure on general insurance. As part of the work implementing the recommendations made by the Taskforce, the ICA began facilitating a trial of the disclosure of the previous year’s premium at renewal. Building on this momentum, as part of the current 2018 review of the General Insurance Code of Practice, the industry has agreed to amend the Code to require the disclosure of the previous year’s premium at renewal for home insurance policies.

The ICA’s Consumer Research report found that the focus on renewal notices is warranted because the renewal notice was the most commonly relied on source of information pre-purchase for car and home insurance policies and was almost always the highest rated information source.²⁰ In addition to disclosing the previous year’s premium, the ICA supports insurers providing reasons for premium increases. In the Senate Committee Inquiry hearings, the ICA noted that adequate explanation of the

¹⁹ Minister for Revenue and Financial Services, 18 December 2017, Government responds to Northern Australia Insurance Premiums Taskforce and General Insurance Senate Inquiry, available:

<http://kmo.ministers.treasury.gov.au/media-release/120-2017/>

²⁰ Insurance Council of Australia, February 2017, *Consumer Research on General Insurance Product Disclosures: Research findings report*, page 34, available:

http://www.insurancecouncil.com.au/assets/report/2017_02_Effective%20Disclosure%20Research%20Report.pdf

change in insurance premiums between the two years is required given that simple comparison of two year's premiums could be misleading.²¹

However, Insurance Australia Group (IAG) has noted that there could be some practical difficulties in providing information on reasons for insurance premium increases as the renewal price is made up of many different components. Being able to explain these on every insurance renewal would not be practical. Despite this, IAG said it would certainly be able to generally provide reasons why there might be pressure on insurance premiums.²²

The Australian Competition and Consumer Commission (ACCC) released its first interim report on the Northern Australia insurance inquiry (First Interim Report) in December 2018. In its report, the ACCC noted there is a range of existing education resources designed by industry and regulators to help consumers understand insurance. ASIC's MoneySmart website contains extensive information for consumers about all financial matters including insurance. The *Insurance Contracts Regulations 2017* (Insurance Contracts Regulations) prescribe a link to ASIC's MoneySmart website in the Key Facts Sheet for home building and contents insurance. The ACCC's First Interim Report recommended inclusion of a link to ASIC's MoneySmart website on new quotes and renewal notices²³. This recommendation is consistent with ICA's consumer research findings that renewal notices are the most commonly relied upon source of pre-purchase information for car and home insurance.

The ACCC's report also recognised the importance of consumers considering other factors such as excess and sum insured alongside premium prices that insurers advise of in renewal notices. The ACCC's report extends the recommendation from the Senate report into the general insurance industry to require disclosure of any excess and the sum insured alongside previous year's premiums on the renewal notice for expiring home, contents, and strata insurance policies²⁴. The ACCC considered disclosing such details would provide a holistic view to consumers during policy renewal and would help consumers in identifying how the insurer proposes to vary terms from the previous year.

The ACCC's report further considered estimating the sum insured is one area where insurers could, and should, provide better guidance to consumers to lessen the risk of underinsurance²⁵. The report further highlighted the need for consumers to understand that sum insured refers to the cost to rebuild rather than the market value of their property. The ACCC recommended that insurers clearly disclose on any sum insured calculator an estimation of the type of costs associated with the sum insured amount of buildings (such as costs of demolition, debris removal or professional fees) where these are not included as a separate allowance under the policy²⁶.

²¹ Mr Rob Whelan, Insurance Council of Australia, 12 April 2017, *Proof Committee Hansard*, page 34, available: http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/a4aef4a6-e49d-4206-88dd-35d94c46b738/toc_pdf/Economics%20References%20Committee_2017_04_12_4970_Official.pdf;fileType=application%2Fpdf

²² Mr Anthony Justice, IAG, 12 April 2017, *Proof Committee Hansard*, page 45, available: http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/a4aef4a6-e49d-4206-88dd-35d94c46b738/toc_pdf/Economics%20References%20Committee_2017_04_12_4970_Official.pdf;fileType=application%2Fpdf

²³ Australian Competition and Consumer Commission, November 2018, *Northern Australia Insurance Inquiry: First interim report*, page x

²⁴ *Ibid.*, page xi

²⁵ *Ibid.*, page 160

²⁶ *Ibid.*, page xi

Consumer views

In its submission to the Senate Committee Inquiry, the consumer group, CHOICE, argued that the disclosure of the previous year's premium 'would allow a consumer to assess any increase and decide if they should seek alternative quotes'.²⁷ Similarly, ASIC contended that 'any unexplained significant price increase should prompt consumers to shop around for alternative policies that may better suit their needs'.²⁸ This suggests that the underlying goal of correcting the information asymmetry may be as simple as reminding a consumer to shop around. However, it should be noted that price is not the only consideration to be had in deciding on an insurance policy. It is important that consumers understand what their policy covers as well as the price they are paying for it. This helps to prevent underinsurance and also disputes at the time a consumer makes a claim on the policy.

The Financial Rights Legal Centre (FRLC) advocated strongly for component pricing in its submission to the Senate Committee Inquiry. It stated that by requiring insurers to provide information about the components in their premium pricing, consumers will be better informed about their personal risk. FRLC explained that component pricing would provide a 'signal to consumers of the risk factors taken into account when premiums are set', and that this 'risk signal' would be particularly helpful in parts of Australia that face severe weather risks.²⁹ FRLC's submission appears to suggest that component pricing would be helpful as it would allow consumers to do something to mitigate against the risks they are paying for.

International experience:

In April 2017, the UK FCA introduced new rules to increase transparency and engagement at renewal in general insurance markets. The rules were intended to encourage consumers to engage with their insurance renewal on both cover and price.

When firms send a general insurance renewal notice to a consumer, they are required to:

- Disclose last year's premium at each renewal, so that it can be easily compared to the new premium offered;
- Encourage consumers to check their cover and shop around for the best deal at each renewal; and
- Identify consumers who have renewed four, or more, consecutive times, and give these consumers an additional prescribed message encouraging them to shop around.

The FCA has been monitoring how firms are implementing the rules.³⁰ Firms have made changes to their renewal documentation in line with the rules to help consumers make informed decisions. However, the FCA has seen several examples of firms that have failed to comply fully with the rules. The areas where firms have failed to meet the rules fall into four broad categories:

- Providing incorrect premium information to consumers;

²⁷ CHOICE, February 2017, Submission by CHOICE to *Australia's general insurance industry: sapping consumers of the will to compare*, page 12, available:

<https://www.apf.gov.au/DocumentStore.ashx?id=ef44c758-3b90-455b-a7e9-d30cce644f5f&subId=464165>

²⁸ Australian Securities and Investments Commission, March 2017, Submission by the Australian Securities and Investments Commission to *Australia's general insurance industry: sapping consumers of the will to compare*, page 27, available:

<https://www.apf.gov.au/DocumentStore.ashx?id=1dd49fea-5d2a-4b01-a90a-02ee1eca9ea3&subId=509837>

²⁹ Financial Rights Legal Centre, February 2017, Submission by the Financial Rights Legal Centre to *Australia's general insurance industry: sapping consumers of the will to compare*, page 17, available:

<https://www.apf.gov.au/DocumentStore.ashx?id=89521621-7af7-44bb-9981-341d1bbf2715&subId=463937>

³⁰ Financial Conduct Authority, October 2017, Firms falling short of renewal expectations, available:

<https://www.fca.org.uk/publications/multi-firm-reviews/firms-falling-short-renewal-expectations>

- Failing to present the premiums and shopping around message clearly, accurately and in a way which draws the consumer's attention;
- Failing to implement the rule changes for all products and consumers; and
- Failing to properly identify a renewal as defined by the FCA's rules. A renewal means carrying forward a policy, at the point of expiry and as a successive operation of the same nature and duration as the policy, with the same insurance intermediary or the same insurer.

Consultation questions:

1. It has become apparent from discussions with industry stakeholders that there is no generally accepted definition of component pricing. What is understood by the term 'component pricing'?
2. What is the goal of disclosing a breakdown of an insurance premium on a renewal notice (component pricing)? How would consumers use this information?
3. Are there any risks associated with insurers providing a detailed breakdown of a premium's components (i.e. commercial sensitivities)?
4. If consumers act to mitigate some of the risks broken down in component pricing disclosure, how would insurers reduce their premium?
5. Would the disclosure of component pricing on policy renewal notices be appropriate for any other type of general insurance product other than home building and home contents insurance?
6. What components would be most useful for consumers to see listed on their renewal notices? (For example taxes, amount attributable to flood cover)
7. What data/breakdown are insurers able to provide if component pricing disclosure was introduced?
8. Where the previous year's premium is disclosed, should it be just the premium, or should it include taxes and charges? Should the amount of the insured value for the previous year also be disclosed?
9. Would insurers prefer to provide further information along with a breakdown of component pricing (for example, a written explanation in the renewal notice, the opportunity to call their contact centre for more information)? Would these items be helpful for consumers?
10. Would the inclusion of the sum insured and any excess along with previous year's premium on renewal notices be more appropriate than only disclosing previous year's premiums?
11. What are the benefits and costs in mandating a link to the ASIC's MoneySmart website to be included in new quotes and renewal notices?
12. Are there any risks associated with disclosing the types of costs that count towards estimation of sum insured?
13. Would the disclosure of types of costs that count toward sum insured on insurers' sum insured calculator be appropriate?

Standard cover – is the current disclosure regime efficient?

Recommendation

- Initiate an independent review of the current standard cover regime with particular regard to the efficacy of the current disclosure requirements.

Objective

To enhance comparability of insurance products. This could reduce underinsurance and enhance understanding of insurance contracts.

Issue

The standard cover regime was established to standardise terms and conditions between prescribed types of insurance contracts. By restricting the scope for variation between comparable insurance contracts and ensuring a minimum level of consistency, the standard cover regime seeks to guard against a lack of coverage for events that are commonly expected to be covered by that type of insurance contract. In turn, reducing the degree to which insurance policies can depart from a ‘common’ understanding of what any given insurance contract should cover should help reduce the likelihood of inadvertent underinsurance by consumers. When introduced in 1984 the standard cover regime did not provide standard definitions.

Standard cover requirements for a range of types of general insurance contracts are set out in the Insurance Contracts Act. However, a contract can deviate from standard cover so long as the consumer was clearly informed, knew, or ought to have known.³¹ Details of standard cover for classes of insurance are prescribed in the Insurance Contracts Regulations.

The issue of ‘clearly informed’ has been judicially considered, where it has been found that ‘clearly informed’ means to ‘make known’.³² Currently, this requirement is satisfied through the provision of a PDS that discloses the deviation from standard cover. However, as PDSs are frequently not read (at least not in their entirety) or not understood,³³ this can be ineffective in alerting customers to the fact their policy does not meet the standard cover regime

The extent to which a standard cover regime delivers a minimum level of default cover across comparable insurance policies, is influenced by the following:

- Those terms and conditions that are included as part of the standard cover regime;
- Whether the standard cover regime is subject to an exemption to provide less than standard cover; and
- If standard cover is subject to such an exemption, the threshold requirements that apply before the exemption is enlivened.

In considering options to enhance disclosure, which could have the effect of limiting deviations from the standard cover regime, issues that would need to be considered include the potential effects on innovation and competition, and whether there would be restrictions in the extent of cover that could be obtained in practice. For example, would limiting exclusions mean increasing premiums to a level that could lead to insurance becoming unaffordable for consumers in high-risk areas.

³¹ *Insurance Contracts Act 1984* (Cth), section 35(2), available: <https://www.legislation.gov.au/Details/C2016C00820>

³² *Suncorp General Insurance Ltd v Cheihk* (1999) 10 ANZ Ins Cas 61 – 444, NSW Court of Appeal.

³³ Insurance Council of Australia’s Effective Disclosure Taskforce, *Too Long; Didn’t Read: Enhancing General Insurance Disclosure*, October 2015, pp. 17–20.

Consumer views

Consumer group, Consumer Action Law Centre (CALC), suggested that standard cover has failed to address the problem people face understanding the extent and coverage of a policy when purchasing insurance.³⁴ As a result, consumers are continually exposed to unintentional underinsurance. These problems persist because of:

- A lack of consumer knowledge of the existence of, and what is covered by, standard cover — public awareness about the coverage an insurance contract offering standard cover is minimal: without understanding what is required under standard cover, consumers are unable to determine whether an insurance contract offers standard cover. This may also influence whether consumers complain about insurance contracts that illegally provide less than standard cover; and
- The threshold requirements for insurers to offer less than standard cover—insurers can fulfil the requirement to ‘clearly inform’ a consumer of the less than standard cover offered by an insurance contract in most cases by providing the consumer with a PDS, which is lengthy and demonstrably unlikely to be read by consumers. Further, there is no requirement for the PDS to highlight the specific areas where the policy offers less than standard cover.

Industry views

In its submission to the Senate Committee Inquiry, the National Insurance Brokers Association (NIBA) stated that ‘it is critically important to note that each insurance policy can be and most likely is different’. Notwithstanding the requirements under the standard cover regime, insurers develop and offer their own terms and conditions of cover, and it should not be assumed that they offer identical coverage. A benefit of the variation of cover offered is that insurers are able to tailor insurance contracts to accommodate a variety of different price points.³⁵

In its evidence to the Senate Committee Inquiry, NIBA suggested that it is timely for a review of the standard cover provisions with input from the insurance industry, government and consumer groups.

Mr Dallas Booth, CEO of NIBA contended that:

*“I believe that if we can have a comprehensive review of those standard form covers, people would not have to receive, would not have to read a PDS statement because they would get the cover that they are expecting to receive. We have certainly suggested to government very recently that it is time for those form provisions in the contracts act and regulations to be reopened and to be thoroughly reviewed.”*³⁶

³⁴ Consumer Action Law Centre, February 2017, Submission by the Consumer Action Law Centre to *Australia’s general insurance industry: sapping consumers of the will to compare*, page 8-9, available:

<https://www.aph.gov.au/DocumentStore.ashx?id=9bc19f14-af86-41ed-a262-19f77a3e4f06&subId=463892>

³⁵ National Insurance Brokers Association, February 2017, Submission by the National Insurance Brokers Association to *Australia’s general insurance industry: sapping consumers of the will to compare*, page 8, available: <https://www.aph.gov.au/DocumentStore.ashx?id=f042c6ba-7e8a-4520-98bf-51e88b5091a5&subId=463585>

³⁶ Mr Dallas Booth, National Insurance Brokers Association of Australia, 12 April 2017, *Proof Committee Hansard*, page 13-14, available:

http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/a4aef4a6-e49d-4206-88dd-35d94c46b738/toc_pdf/Economics%20References%20Committee_2017_04_12_4970_Official.pdf;fileType=application%2Fpdf

International experience

There appears to be limited examples of standard cover regimes that are legislatively implemented internationally. In the US, insurance policies are largely standardised based on forms and guidance provided by national insurance advisory organisations such as the Insurance Services Office (ISO) or the American Association of Insurance Services.

While the objective of these organisations is to provide services to ensure insurer's compliance with regulatory or statutory requirements of different states, the services that national advisory organisations provide also serve as a basis for underwriting and helps develop a standardised policy for insurers that promotes better comparability of insurance products for consumers.

Relevantly, ISO provides its clients with policy forms, which reduces the cost and time-consuming nature of policy writing for the insurers and avoids the risks associated with policy writing. Since policies that insurers drafted may be interpreted differently by the courts, ISO forms present a way to mitigate that risk, as much of the policy language has already been analysed by courts. Some ISO policy forms act as industry standards serving as a benchmark for comparing between policies developed by insurers. Insurers have the flexibility to build on the ISO policy language and include other features.

Consultation questions

14. Does standard cover achieve the purpose for which it was implemented? If not, how could it be improved?
15. Are the current terms and conditions, including caps, limits, and exclusions included under standard cover seen to be adequate?
16. What would be the likely consequences if the standard cover regime was extended to cover a wider number of terms and conditions? What sort of areas might be usefully added to standard cover?
17. Should there be a 'default cover' that insurers are required to provide without exception?
18. Should all insurers be required to provide products that provide standard cover as prescribed in the Insurance Contracts Regulations?
19. Is the requirement to 'clearly inform' a consumer that an insurance contract provides less than standard cover as it is commonly understood, an appropriate threshold for insurers to satisfy before they are exempted from providing standard cover?
20. Where insurers deviate from standard cover, should they be required to provide express disclaimers identifying where the policy deviates from standard cover?
21. What disclosure requirements could the Government look into in order to reflect the intended purpose of standard cover requirement?

Standardised definition of key terms

Recommendation

- That the Government work closely with industry and consumer groups to develop and implement standardised definitions of key terms for general insurance.

Objective

To enhance comparability of products. This could reduce underinsurance and enhance consumer understanding of insurance contracts.

Issue

The standard cover regime by itself is unable to deliver consistent coverage between insurance contracts, and enhance consumer understanding. Insurance contracts that are required to include the same terms and conditions may still deliver variable levels of coverage, if the terms of the contract do not rely on a standard definition. Inconsistent definitions between policies risk misleading consumers into thinking they have cover for certain events when they do not.

The standardised definition of 'flood' is an example of a measure that has achieved consistent level of coverage between insurance contracts. Variations in the definition of 'flood' in insurance contracts became apparent at the time of the 2010-11 Queensland floods. Differences in the definition caused confusion and perceptions of unequal treatment arising from policyholders' misunderstanding of what was and was not covered in their policies.

In April 2011, the *Reforming Flood Insurance: Clearing the Waters* paper (Clearing the Waters paper) was released. The paper contained two proposals for reform:

- A standard definition of flood in insurance contracts.
- A requirement for insurers to issue a KFS with insurance policies.

Due to the confusion caused by conflicting definitions of 'flood' in insurance contracts, the primary objective of the *Clearing the Waters* paper was to provide greater clarity on whether or not policies provided cover for riverine flooding.³⁷ It was proposed that this be addressed by the introduction of a standard and mandatory definition of flood. In June 2012, the Insurance Contracts Act was amended to implement this proposal for home building and contents and residential strata title insurance policies, as well as insurance policies that related to small businesses.³⁸ The standard definition of flood was prescribed in the Insurance Contracts Regulations.

Increasing the use of standard definitions could improve consumer awareness and their ability to compare policies. However, there are challenges in developing standard definitions. While there is now a standard definition of 'flood' in insurance contracts, some of the challenges included coming up with an appropriate way to describe a natural event that would be broad enough to cover all aspects of flood events. Also, standard definitions could affect pricing of an insurance product, and thereby limit access to insurance.

³⁷ Commonwealth of Australia, April 2011, *Reforming flood insurance: Clearing the Waters*, page 5, available: http://archive.treasury.gov.au/documents/1995/PDF/clearing_the_waters_april2011.pdf

³⁸ *Insurance Contracts Amendment Act 2012* (Cth), available: <https://www.legislation.gov.au/Details/C2012A00041>

Consumer views

Consumer groups CHOICE, FRLC and CALC all support standardised key insurance definitions to assist consumers to compare different insurance products. This weakness was recognised when the definition of ‘flood’ was standardised in insurance contracts. CHOICE recommends identifying and prioritising key insurance terms such as the ‘actions of the sea’.

ASIC noted that it is not always possible for consumers to appreciate nuances in definitions and what this means for their coverage. ASIC recommends standardising policy terms and risk factors particularly for natural disaster risk mapping by considering legislative changes or specific authorisations. It further suggested standardising policy definitions would better enable comparison services to compare like-with-like products.

Industry views

In its statements to the Senate Committee Inquiry, the ICA remarked that standard definitions could result in insurers offering the same cover, thereby reducing consumer choice.³⁹ As part of the TLDR paper, the ICA’s Effective Disclosure Taskforce looked at a range of options to facilitate better product comparison. The ICA is currently working with members on initiatives to achieve this, including the need to make key terms more consistent across the industry.⁴⁰

Consultation questions

What is the goal of standardised definitions?

1. Has the standard definition of flood reduced the number of complaints/disputes with insurers about coverage?
2. Should the Government mandate standardised definitions for a menu of key terms?
3. If key terms were to be standardised, what definitions should the Government prioritise? What terms tend to be subject to dispute due to misunderstandings of meaning?
4. What impact would standardising some definitions have on underwriting?
5. Should there be standard definitions for exclusions, for example, wear and tear?

³⁹ Mr Rob Whelan, Insurance Council of Australia, 12 April 2017, *Proof Committee Hansard*, page 34, available: http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/a4aef4a6-e49d-4206-88dd-35d94c46b738/toc_pdf/Economics%20References%20Committee%202017%2004%2012%204970%20Official.pdf;fileType=application%2Fpdf

⁴⁰ Insurance Council of Australia, October 2015, *Too Long Didn’t Read: Enhancing General Insurance Disclosure*, page 53, available: <http://www.insurancecouncil.com.au/assets/Effective%20Disclosure%20Report.pdf>

Review of the Key Facts Sheet

Recommendation

- The Government undertake a review of the utility of the KFS as a means of product disclosure, with particular regard to the effectiveness of the KFS in improving understanding of home building and contents policies, and merit of extending the use of KFS to other forms of general insurance.

Issue

The format of the KFS is prescribed in the Insurance Contracts Regulations, with specific requirements for the items to be included in the document. Since its implementation, the effectiveness of the KFS as a means to help improve consumers' outcomes in their purchase of general insurance policy has been questioned. The issue centred on the fact that consumers do not necessarily refer to the KFS as the main source of information for insurance policy selection. The ICA's Consumer Research report shows that only 6 per cent of the respondents use the KFS as the main source of information for home building and home contents insurance policy selection.⁴¹ Instead, consumers reported using the renewal notice, staff and online quotes as key information for assessing policies, which suggest that the consumers' decision making process is often guided by price, with limited regards to coverage, limitations and exclusions of the policy.

The Consumer Research report also found that consumers who made an effort to compare at least 3 brands are more likely to use the KFS as a source of comparison tool.⁴² This indicates that the KFS has the potential to aid comparison and help consumers in their decision making process when purchasing insurance.

Studies on the use of KFS convey low consumer awareness of it. The Consumer Research report indicates while most consumers (72 per cent) are aware of the PDS, only 48 per cent are aware of the KFS.⁴³ However, most consumers made aware of the KFS would have a high probability of reading the KFS.⁴⁴

Results from the ICA's TLDR paper show short-form disclosure may be useful to consumers in summarising key policy features including coverage and exclusions. A survey commissioned by ICA found 'half of those who renewed an existing [home insurance] policy or took out new policy recall receiving the KFS'. When the participants are given the chance to review the KFS, most participants found the KFS to be relevant and useful in improving their understanding about their insurance policy coverage.⁴⁵ The survey noted that almost 90 per cent of the respondents consider the KFS to be a valuable tool for car insurance policies and 60 per cent consider the KFS is valuable for other types of insurance.

⁴¹ Insurance Council of Australia, February 2017, *Consumer Research on General Insurance Product Disclosures: Research findings report*, page 18, available:

http://www.insurancecouncil.com.au/assets/report/2017_02_Effective%20Disclosure%20Research%20Report.pdf

⁴² Ibid., Annex 2 page 22.

⁴³ Ibid., Annex 2 page 27.

⁴⁴ Ibid.

⁴⁵ Insurance Council of Australia, October 2015, *Too Long Didn't Read: Enhancing General Insurance Disclosure*, page 49, available: <http://www.insurancecouncil.com.au/assets/Effective%20Disclosure%20Report.pdf>

A potential risk of the short-form nature of a KFS is that it contains much less information than the detailed policy described in the PDS, which makes it less relevant to consumers⁴⁶. The FRLC and Monash University recently undertook an experimental study to investigate the effectiveness of PDS and KFS as the short-form disclosure in assisting consumers to select the best policy that suits their needs.⁴⁷ Respondents were presented with three policy options, one good, one medium and one poor, and for each policy were provided with only the KFS, only the PDS or both types of information. The results show around 40 per cent of those provided with the KFS only selected the best option and roughly the same for those provided with the PDS only selected the same best option. In contrast, 49 per cent of those provided with both PDS and KFS selected the best option.

The provision of both KFS and PDS however also resulted in the greatest percentage choices for the poorest option (13 percent). So whereas the combined KFS and PDS condition on the one hand resulted in the best outcome for many, it also resulted in the worst outcome for another subgroup of respondents. When only the PDS was provided a larger number of consumers (29 percent) chose to not purchase a policy at all. Respondents were equally satisfied with their decision in all three situations; however, those in the situation with only the KFS expressed a greater need for additional policy information.

The findings of the research suggest some merit in the provision of both KFS and PDS, together in assisting consumers with their policy selection. However, if standard cover and standard terms were updated, then the role of KFS would be simplified.

Industry views

ICA's submission to the Senate Committee Inquiry noted insurance brokers have a key role in assisting consumers in selecting appropriate home building and home content products instead of a mandated disclosure regime such as KFS.⁴⁸

During the Senate Committee Inquiry hearings, NIBA raised concerns on the oversimplification of what is covered by the relevant policies in KFS and the potential to mislead consumers into policies that do not meet their needs.⁴⁹ NIBA said there are examples in particular in relation to home and home contents policies where the KFS could actually be misleading to the relatively uninformed consumer.⁵⁰

Allianz shared NIBA's view and noted that the KFS does not allow effective comparison between two distinct policies with differing premiums, which can appear to be the same insurance cover on the KFS. This could mislead the consumers into purchasing unneeded insurance cover and increases the risk of underinsurance.

⁴⁶ Insurance Council of Australia, February 2017, *Consumer Research on General Insurance Product Disclosures: Research findings report*, Annex 2 page 41, available: http://www.insurancecouncil.com.au/assets/report/2017_02_Effective%20Disclosure%20Research%20Report.pdf

⁴⁷ J. Malbon and H. Oppewal, 2018 (Monash University, Melbourne), *(In)effective disclosure: An experimental study of consumers purchasing home contents insurance*, research report of a study commissioned by the Financial Rights Legal Centre, available: <https://australiancentre.com.au/publication/ineffectivedisclosure>.

⁴⁸ Insurance Council of Australia, February 2017, Submission by the Insurance Council of Australia to *Australia's general insurance industry: sapping consumers of the will to compare*, page 21, available: <https://www.aph.gov.au/DocumentStore.ashx?id=3747d3b4-e265-42e8-861c-87be3fdc706b&subId=463939>

⁴⁹ Mr Dallas Booth, National Insurance Brokers Association, 12 April 2017, *Proof Committee Hansard*, page 10, available: http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/a4aef4a6-e49d-4206-88dd-35d94c46b738/toc_pdf/Economics%20References%20Committee_2017_04_12_4970_Official.pdf;fileType=application%2Fpdf

⁵⁰ Ibid.

Consumer views

According to CHOICE several other sectors, including the home loan KFS and the Critical Information Summaries used in the telecommunication market, have used short-form disclosure to address lengthy and complex information. CHOICE noted that there is low consumer awareness of the KFS which could be attributed to poor provision of information and inadequate staff training from insurers. CHOICE recommends enforceable obligations for insurers to display a KFS alongside any advertising materials for a policy and the enforcement of KFS obligations to ensure adequate information provision and staff training.

The FRLC believes that low consumer awareness could potentially be driven by insurers' poor use of KFSs, including the absence of a display of a KFS in a prominent place on insurers' websites during the marketing process and not providing KFSs to consumers at the point of sale.

In the Senate Committee Inquiry hearings, the FRLC contended that the KFS is not meeting its intended purpose.⁵¹ The FRLC said they have reviewed hundreds of KFSs over the years for many products. Some of them are very poor, with only reference to product disclosure statements and others are almost misleading due to oversimplification. The FRLC suggested that the KFS could be redesigned but consumer testing would be required if this was to happen. CALC expressed the need to undertake a detailed evaluative study of the KFS, which would be useful in determining the type of disclosure that works.

International experience

The European Union is in the process of mandating a standardised template, the insurance product information document (IPID), which aims to provide consumers with clearer information on all non-life insurance products to allow consumers to better make decisions on their purchases.

Similar to the idea of the KFS, the IPID is no more than a two page summary that presents key information in relation to insurance products other than life insurance. While extensive research has been done to support IPID, the effectiveness will not be known until it has been implemented by industry.

⁵¹ Ms Alexandra Kelly, Financial Rights Legal Centre, 12 April 2017, *Proof Committee Hansard*, page 17, available: http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/a4aef4a6-e49d-4206-88dd-35d94c46b738/toc_pdf/Economics%20References%20Committee_2017_04_12_4970_Official.pdf;fileType=application%2Fpdf

Consultation questions

27. Should the KFS be extended beyond two pages to convey more information, similar to the short-form PDS?
28. The form of the KFS is currently prescribed in the law, should this be removed to allow industry to take a more innovative approach?
29. Are there any legal issues industry would like to raise regarding the extension or modification of the KFS?
30. Are there items that would be more suitable for inclusion for consumers in a KFS?
31. In the context of home building and home contents insurance, what are considered to be the key policy elements that consumers need to know about for them to make an informed decision when comparing across policies?
32. Would there be merit in extending the KFS requirement to other forms of general insurance? What value does it add for the consumers?
33. How can the low awareness of KFS's be addressed and the difficulty of consumers in comparing different policies using KFSs overcome?
34. Should the KFS be replaced with a new approach? If so, what approach should be taken?

A modern approach to disclosure

Issue

The discussion about disclosure for general insurance does not need to be limited to traditional methods of communicating with policyholders. There is an opportunity to propose approaches that use modern technology.

The era of smartphones and the web has created more opportunities for consumers to get their content delivered in a different medium. As a result, companies have started responding to consumers' preferences and are making their content available across all platforms viz mobile, desktop, print media and video.

Consultation Questions

35. Are there more effective or innovative ways to communicate information on policies to consumers?
36. Is the law currently preventing more effective methods of disclosure? If so, how?
37. How could the law facilitate new methods of disclosing the content currently required in the PDS, while still ensuring adequate consumer protections?