Australian Securities and Investments Commission

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25 October 2021

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QBE Insurance (Australia) Limited
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Dear s 22

ASIC's expectations - general insurers to review pricing practices

On 15 October 2021 ASIC issued media release 21-270MR calling on general insurers to review their pricing practices, systems and controls as a matter of priority to ensure customers get the full discounts they are promised.

This follows industry-wide failures that have already led to more than $400 million in remediation being paid to over 2 million home, car, and other insurance customers since 2018.

ASIC's concerns

Industry wide failure to honour pricing promises and significant consumer harm

Since 2018, general insurers have reported to ASIC a significant number of breaches or potential breaches in relation to failures to honour price discounts promised such as multi policy discounts, no claims discounts and loyalty discounts to consumers. Some of these recently reported breaches occurred nearly 20 years ago—despite these issues being highlighted by ASIC in work publicly reported in June 2013 and February 2015.

The failure to deliver promised price discounts is an issue many consumers would find difficult to detect and raise. Therefore, complaint and dispute numbers are not a reliable indication of the level of harm caused by this conduct.

Systemic failures of systems, processes and controls

It appears to us that many general insurers have failed to ensure they have the systems, processes and controls in place to deliver on their pricing promises.

ASIC is aware that some general insurers attribute these failures to coding errors, incorrect or incomplete data or the failure to disclose the impact of price 'floors' such as 'minimum premiums' or 'cups'. While these are all contributing factors, the breaches reported to date demonstrate broader problems.

From a review of recent breach reports and our past work, ASIC considers that the root causes of these failures to honour promised discounts are breakdowns in systems, processes and controls. This includes:

- failure to put consumers first in product design and pricing;
- failure to invest in and upgrade legacy IT systems;
- pricing promises that are so complex that the insurer cannot identify when discounts are not being delivered;
- having such a complex array of products (including legacy products), disclosure documents and marketing messages that the insurer was unable to keep track of them adequately; and
- failure to identify issues in a timely manner, potentially because of poor and potentially under-resourced compliance and governance arrangements.

ASIC's requirements and expectations

The volume of breach reports to ASIC since 1 January 2018, along with the apparent failure to identify the root cause of the breaches, is concerning. It suggests that the full extent of the problem across the general insurance industry has not yet been identified. Accordingly, ASIC expects general insurers to take the actions in Table 1.

Table 1: ASIC's expectations

ASIC's expectations	What this means
1. **FIND**: Identify any differences between the prices promised to customers and what those customers were charged	We expect general insurers to commission a review to confirm whether all discounts or price rewards the insurer has promised on all retail general insurance products over the past five years have been fully delivered to all relevant customers. The review should cover all public-facing promises including, but not limited to, in marketing materials, disclosure documents, websites (including online quoting processes), renewal documents and letters, emails, SMS messages, call-centres and on social media platforms. The review should identify any inconsistency, or potential inconsistency, between the pricing promises made to customers and the prices delivered to them. In doing this the review should consider, amongst other things: • whether the use of price 'floors' such as 'minimum premiums' and 'cups', particularly when applied after the application of discounts, affects whether a customer receives the promised discounts in full;

ASIC's expectations	What this means
	• whether the use of differential pricing between renewing and new business customers affects whether consumers receive any 'loyalty' discounts and rewards; • whether the use and effect of pricing floors and differential pricing has been appropriately disclosed, considering Regulatory Guide 234 (in particular RG 234.47-53); and • whether promised reductions in price for changes in excess levels, coverage and limits, have been honoured in full. ASIC expects the review to be carried out by persons other than the business unit directly responsible for pricing. This could, for example, be by QBE Insurance (Australia) Limited's (**QBE**) internal audit function (the 'third line of defence') or an external professional services firm with expertise in general insurance pricing. ASIC anticipates that this review would be completed within six (6) months from the date of this letter.
2. **FIX**: Rectify the 'root cause' of the issue and fix relevant systems, processes, controls and governance practices	Where the above review identifies any inconsistency, or potential inconsistency, between the pricing promises made to customers and the prices delivered to them, we expect general insurers to: • identify and rectify the 'root cause(s)' that gave rise to the inconsistency; • review the effectiveness of and fix any weaknesses in the relevant systems (including IT and compliance systems), compliance function (including monitoring and supervision), processes, controls and governance practices.
3. **REPAY:** Remediate any customers impacted	Where the review identifies any inconsistency, or potential inconsistency, between the pricing promises made to customers and the prices delivered to them, we expect that general insurers will remediate affected customers in full.
4. **REPORT**: Report any significant breaches to ASIC	We remind you of the obligation to report significant breaches or likely significant breaches of the financial services laws to ASIC under section 912D of the Corporations Act 2001 (Cth).

ASIC's expectations	What this means
5. **OVERSIGHT**: Provide signoff from the senior executive overseeing this work	We expect general insurers to allocate oversight of this work to an appropriate senior executive. We expect that the senior executive will provide ASIC with written confirmation at the end of this program of work (i.e. steps 1-4) that, in their opinion, it has been completed in a satisfactory manner (taking into account the material in this letter and MR 21-270).

ASIC's approach and next steps

We request confirmation that QBE will carry out a review as outlined in step 1 of the above table and will also undertake steps 2-4 as relevant following the review. Please confirm the name and contact details of the relevant senior executive at QBE who will oversee this program of work.

We may request an update from time to time about the progress of this program of work. We don't envisage that this will be more frequently than six-monthly.

ASIC will continue to monitor marketing and pricing practices in the general insurance industry and consider using the full range of regulatory tools available to protect consumers from general insurers failing to honour promised discounts.

Please contact s 22 [redacted] at s 22 [redacted] @asic.gov.au if you have any questions.

Yours sincerely

s 22 [redacted]

s 22 [redacted]
Senior Executive Leaders – Insurers
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