Australian Securities & Investments Commission

REPORT 415

Review of the sale of home insurance

October 2014

About this report

This report presents the findings of our review of the sale of home insurance.

The purpose of the review was to understand the information that consumers are currently receiving 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.

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- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

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Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Contents

A Executive summary

1 The aftermath of natural disasters continues to highlight both the gap between a consumer's understanding of the scope of their home insurance and the actual terms of the policy (as set out in the Product Disclosure Statement (PDS)), and persistent levels of underinsurance.

2 This report expands on ASIC's previous work by examining consumers' experiences when inquiring about or purchasing home insurance. In doing so, this report aims to:

(a) understand the information that consumers are currently receiving about home insurance at the point of sale, including identifying poor selling practices and gaps in consumer understanding and decision making; and

(b) identify opportunities to raise standards and encourage insurers to adopt practices that reduce the risk of consumers buying insurance that does not meet their needs.

What we did

3 We asked 12 general insurers (representing 30 home insurance brands) to provide data and internal documents in relation to the purchase of, and inquiries about, home insurance by consumers over the telephone, online and face-to-face[1] during the period from 1 March to 31 August 2013 (the review period). As part of our review, we listened to a random sample of 400 telephone recordings of the sales of, or inquiries about home insurance.

4 In practice, a number of insurers offer home insurance under multiple home insurance brands, and sales practices and other business processes may differ between these brands. For this reason, in this report we distinguish between different home insurance brands, rather than insurers.

5 To help us better understand the purchase of home insurance from a consumer's perspective, we commissioned Susan Bell Research to research consumers' experiences when they bought or renewed home insurance in 2013. The aim of the research was to explore the adequacy of the resources and information provided to consumers when buying or renewing home insurance.

6 The specific issues explored in the Susan Bell research were:

(a) how much consumers knew about home insurance;

[1] By 'face-to-face' we mean the purchase of or inquiry about home insurance through branches (such as insurer or bank branches), insurance brokers and financial advisers. While we reviewed the data and internal documents we received for all face-to-face channels, our findings (where applicable) are focused on face-to-face branch sales.

(b) why consumers enquired about home insurance policies;

(c) how consumers selected insurers to contact;

(d) consumers' experiences with the inquiry and sales channels;

(e) how consumers decided the value of their building and contents; and

(f) what measures, beyond disclosure, would help consumers.

7 This research is published in Report 416 *Insuring your home: Consumers' experiences buying home insurance* (REP 416) in conjunction with this report.

8 Where appropriate, we will refer to the key findings of REP 416 to support certain findings in this report.

Purpose of this review

9 The purpose of ASIC's review was to understand the information that consumers are currently receiving about home insurance at the point of sale and to encourage insurers to adopt practices that reduce the risk of consumers buying insurance that does not meet their needs.

10 Our review was also an opportunity for us to:

(a) take a closer look at concerns raised with ASIC by consumer groups (and also made in various submissions to formal government inquiries in response to the Queensland floods of 2011) that consumers rely on information obtained during the sale (particularly during telephone sales) about their home insurance and that they seldom read the PDS;

(b) gain a better understanding of how home insurance is sold, including an understanding of the different channels and distribution networks that home insurance is sold through, as well as any poor sales practices that warrant attention;

(c) build on previous work undertaken by ASIC on underinsurance (including an examination of some of its causes) and, where possible, make suggestions to insurers that identify the factors that cause underinsurance and opportunities to overcome these factors;

(d) better understand consumer behaviour and biases and the heuristics that are relevant when making decisions about home insurance and, where appropriate, make suggestions about how they might be managed or offset; and

(e) suggest ways insurers can narrow the gap between a consumer's understanding of what is covered by the home insurance and what is actually covered.

The risk of underinsurance

11 This review furthers the work of two previous reports published by ASIC on home building underinsurance in 2005 (Report 54 *Getting home insurance right: ASIC's report on home building underinsurance* (REP 54)) and 2007 (Report 89 *Making home insurance better* (REP 89)).

12 Underinsurance occurs when a consumer does not have enough insurance to cover all the costs of rebuilding their home. A consumer is considered to be underinsured if their insurance covers less than 90% of the rebuilding costs.[2]

13 The consequences of underinsurance are most significant in situations of total loss. That is, when the home building and/or its contents are completely destroyed.

14 REP 54 examined the causes of home building underinsurance after the Canberra bushfires in 2003, and noted that Canberra homeowners affected by widespread fires were underinsured by between 27% and 40% on average. REP 54 recommended that insurers make calculators available to consumers to assist with estimating the sum insured. It also noted that total replacement policies helped to reduce underinsurance.

15 REP 89 examined what steps insurers subsequently took to tackle the causes of underinsurance after the first report.

16 This report builds on that work by looking at consumers' experiences and understanding when inquiring about or purchasing home building insurance, including how the way in which home insurance is sold to consumers, may be contributing to the incidence of underinsurance.

What we found

Consumer understanding of home insurance at the point of sale

17 At a high level, we found that online and telephone 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 as a way to improve a consumer's understanding of the home insurance they are inquiring about or purchasing. Instead, this is seen as the role of the PDS and other important policy documents, such as the certificate of insurance.

[2] Understand Insurance, *Do you have enough insurance?*, webpage, Insurance Council of Australia (ICA), http://understandinsurance.com.au/do-you-have-enough-insurance.

18 While we acknowledge that all insurers currently provide consumers with comprehensive information and disclosure for home insurance products (mainly through their websites and within PDSs), we are aware that most consumers do not read these disclosures and, even when they do, they may not always attain a complete and accurate understanding of the scope of the insurance.

19 One reason for this is that when consumers are faced with complex decisions or large amounts of information they experience what is referred to as 'cognitive overload', which can affect how consumers process information and can weaken the use of critical decision faculties.

20 REP 416 reports the findings of an online survey which asked consumers if they read or looked at the PDS when buying home building insurance. This survey found that two in every ten consumers (20%) who took out new insurance or considered switching read the PDS.[3] However the qualitative research undertaken as part of REP 416 found that 'reading' the PDS generally means reading selected pages, not all of it.

21 A submission by the Caxton Legal Centre to the *Inquiry into the operation of the insurance industry during disaster events* supports the theory that consumers rely on statements made to them at the point of sale.

22 In early August 2011, Caxton Legal Centre conducted a survey of 126 insurance clients who had experienced flooding or water inundation in January 2011.[4]

23 The survey results highlight two important points:

(a) consumers rely on verbal information and advice provided by insurers about the scope of their insurance at the point of sale, regardless of whether insurers intend to provide advice (e.g. they operate a 'no advice' model); and

(b) even when consumers take the time to read insurance documentation, including the PDS, many misunderstand it, scan it briefly due to over reliance on sales staff, or fail to understand it due to its complexity.

24 Similarly, the Natural Disaster Insurance Review noted that:

> There are issues around consumers' access to information and documentation in a form they can readily understand, given that insurance is a complex product increasingly transacted through direct sales and renewals by telephone and the internet under a 'no advice' model.[5]

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[3] REP 416, Section 3.3 'How many consumers read the PDS?', p. 45.

[4] Caxton Legal Centre, *Standing Committee on Social Policy and Legal Affairs: Inquiry into the operation of the insurance industry during disaster events,* (Submission No. 53), 12 September 2011.

[5] Natural Disaster Insurance Review, *Inquiry into flood insurance and related matters*, report, September 2011, p. 1, www.ndir.gov.au/content/report/downloads/NDIR_final.pdf.

25 REP 416 also suggests that consumers know very little about the details of their home insurance policy. Some consumers in the research did not know that policies differed. They assumed that all home insurance policies were the same and therefore asked insurers few questions about their policy. Similarly, they considered there is no need to read the PDS. Therefore, unless their insurer specifically told them otherwise, these consumers did not find out that policies can differ in their caps, limits and definitions.[6]

26 REP 416 also found that many consumers want the sales process for the purchase of home insurance to be quick and easy, and therefore may not use this process in a way that helps them to understand the insurance they are purchasing at the appropriate point in their decision process. Few consumers invested the several hours required to better understand the home insurance product they were purchasing by using the information and disclosure provided by insurers, and some consumers who did take the extra time to check features of the policy were quite selective in the features they that they chose to inquire about.[7]

27 These findings highlight the limitations of disclosure. 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. However, consumer research, psychology and behavioural economics indicates that a consumer's decision making is affected by behavioural biases, and that financial decisions are motivated and influenced by a complex mix of internal and external factors.[8]

28 We therefore consider that further work is needed to examine how behavioural insights can be used to experiment with different options to help 'nudge' consumers toward better understanding the insurance they are purchasing so that it meets their needs.

The risk of underinsurance

29 This review furthers the work of two previous reports published by ASIC on home building underinsurance—REP 54 and REP 89.

30 REP 54 found high levels of underinsurance after the Canberra bushfires in 2003, and recommended that insurers make calculators available to consumers to assist with estimating the sum insured. It also encouraged insurers to make total replacement policies more widely available, to help reduce underinsurance.

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[6] REP 416, pp. 9–10.
[7] REP 416, pp. 12 and 42–43.
[8] ASIC, *Financial System Inquiry: Submission by the Australian Securities and Investments Commission*, submission, April 2014, paragraphs 40–42 and 697–726.

31 REP 89 examined what steps insurers subsequently took to tackle the causes of underinsurance after the first report.

32 This report builds on that work by looking at consumers' experiences and understanding when inquiring about or purchasing home building insurance, including how the way in which home insurance is sold to consumers may be contributing to the incidence of underinsurance.

33 The consequences of underinsurance are at their greatest in situations of total loss. That is, when the home building and/or its contents are completely destroyed.

Telephone sales

34 As part of our review we requested from insurers a random sample of telephone recordings of the sale of or inquiries about home insurance.

35 We listened to 400 telephone recordings.

36 At a high level, we found that when consumers tried to improve their understanding of a particular policy by asking the insurer questions about the scope of the home insurance, many sales staff referred the consumer to the PDS. Yet in most cases they had not yet received or obtained the PDS.

37 REP 416 found that some consumers do in fact learn about home insurance from conversations they have with insurers. We consider this to be an important finding and welcome its wider application by industry.[9]

38 In our review, we identified some instances of consumers' questions being answered poorly by the insurer.[10]

39 Most consumers asked questions and sought assistance from insurers about:

(a) how best to estimate the sum insured for their home building insurance;

(b) insurance features and exclusions; and

(c) the price (premium) of the home insurance.

40 Table 1 summarises some of the key findings we identified in these important areas of consumer understanding.

[9] REP 416, p. 34.
[10] For an example, see the transcript at paragraph 159.

Table 1: Findings from review of telephone sales calls

Issue	Findings	Likely outcome
Sum insured Consumers frequently asked questions and sought assistance about how best to decide on a sum insured amount.	In many instances, sales staff advised that they were not able to provide any assistance and that the consumer needed to determine this amount by themselves. Most consumers went on to make uninformed and therefore poor decisions about how best to decide on a sum insured amount. For instance, see paragraph 159 for an example of a call where the consumer made a poor decision about the sum insured. Some insurers asked consumers questions about estimating their sum insured in a way that pointed the consumers to what the sum insured amount is designed to cover. For instance, some insurers framed the question by asking what it would cost the consumer to rebuild their home at today's prices, rather than how much they would like to insure for. For these calls, we found examples where consumers were making more informed and therefore better decisions around estimating their sum insured. There were very few examples where consumers were referred to calculators to assist with estimating a more appropriate sum insured. In most instances, sales staff were reluctant to provide any general advice during telephone sales calls. No advice or factual information models appear to be the norm. Feedback from insurers is that they do this to minimise the risk that any advice provided will trigger regulatory requirements associated with personal advice.	Without assistance, consumers are at greater risk of underinsurance.
Insurance features and exclusions Consumers frequently asked questions and sought assistance about what was included and excluded from home insurance.	Most sales staff attempted to answer consumers' questions about whether particular events (e.g. storm, fire, flood) or items (e.g. paintings, carpets) were covered. However, they generally referred the consumer to the PDS if further information was sought. Consumers appeared to be receiving better information and guidance for 'add-on' cover, including accidental damage for home building insurance, and portable valuables cover for home contents. For example, most sales staff were able to provide detailed explanations of what the add-on cover was designed to insure and included examples of hypothetical scenarios to demonstrate how the cover would operate in practice. Some sales staff did this without prompting from the consumer.	Consumers are likely to be better informed about any add-on cover than about their main home insurance.

Issue	Findings	Likely outcome
Price of the insurance Consumers frequently called the insurer to question an increase in their premium or to seek a quote for a reduced premium.	Most sales staff would attempt to reduce the premium by offering to reduce the sum insured or increase the excess.	Lowering the sum insured will increase the policyholder's exposure to underinsurance. A consumer may switch insurance based solely on the price of the premium rather than the level of cover attached to that premium.

Telephone scripts

41 We also asked insurers to provide us with copies of the telephone sales scripts used for home insurance. We did this in part so that we could compare the scripts to the actual content of the telephone calls we had reviewed. We also reviewed the overall adequacy of the scripts and how they compared across sales channels.

42 We found that all insurers had scripts in use for the sale of home insurance. However, we identified that the scripts provided by some insurers:

(a) were high level or principles based and lacked sufficient structure, leading sales staff to improvise and provide information to consumers that was not always correct or was potentially misleading;

(b) contained insufficient detail about the scope of the insurance itself (its inclusions, exclusions, caps and limits), and insufficient or no guidance about how best to estimate the sum insured;

(c) appeared to adopt a no advice or factual information model despite the insurer in most cases being licensed to provide general or personal advice. Feedback from insurers is that they do this to minimise the risk that any advice provided will trigger regulatory requirements associated with personal advice;

(d) did not always take into account differences between home insurance offered by the same insurer under different home insurance brands (i.e. a 'one size fits all' approach to scripting);

(e) were primarily sales driven; and

(f) failed to disclose the statutory cooling-off period.

43 For more information about telephone sales and scripts, see Section D.

Online sales

44 We made similar observations about the online sales process for home insurance. That is, the sales screens on an insurer's website 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 as a way to improve a consumer's understanding of the home insurance they are inquiring about or purchasing. Instead, this is seen as the role of the PDS and other important policy documents, such as the certificate of insurance.

45 While we acknowledge that all insurers currently provide consumers with comprehensive information and disclosure for home insurance (largely through their websites and within PDSs), we are aware that most consumers do not read these disclosures and, even when they do, they may not always attain a complete and accurate understanding of the scope of the insurance.

46 Most consumers were provided with better access to calculators (whether as a link or incorporated into the online sales process) compared to the telephone sales process. However, access to calculators varied between insurers.

47 Five key practices we identified that help consumers better understand the insurance they are purchasing online are:

(a) highlighting key insurance features, including important exclusions, caps and limits. A key facts sheet should help to achieve this;

(b) highlighting whether a consumer is considered to be in a disaster-prone area or an area of increased risk for natural peril, based on their address details;

(c) highlighting that consumers may need to be aware of council guidelines for rebuilding in disaster-prone areas, including the likely impact this may have on the cost of rebuilding;

(d) making calculators more accessible during the sales process, which may include incorporating calculator-style questions into the sales process; and

(e) making PDSs available to consumers at the most effective time and in a readily downloadable and printable format during the sales process.

48 For more information about online sales, see Section E.

Online calculators

49 For home building insurance, 10 of the 12 insurers we reviewed provided consumers with access to an online calculator for estimating the cost to rebuild a home.

50 For home contents insurance, 11 of the 12 insurers we reviewed provided an online calculator for estimating the replacement cost for home contents.

51 Overall, we observed a number of good practices relating to calculators.

52 Some of the good practices we observed were:

(a) both home building and home contents calculators were relatively easy to use;

(b) calculator-style questions built into the sales process for home building insurance meant that consumers did not have to divert away from the sales process to obtain an estimated cost of replacement; and

(c) links to home building and home contents calculators located at the relevant section of the sales screen (e.g. next to the question 'How much do you want to insure your home and/or contents for?').

53 We also observed some practices that were less likely to be effective:

(a) some insurers' online calculators were located outside the online sales screens. Of the 21 home insurance brands that offered calculators separate to the sales screens, only two provided a direct link to the calculators on their homepage. For one home insurance brand, use of the website's search function was required to locate the calculator;

(b) despite using the same data set (see Table 4 in Appendix 1 and Table 5 in Appendix 2), material variations in the sum insured values between insurers' online calculators (even for different home insurance brands offered by the same insurer) existed. This applied to both home building and home contents calculators;

(c) not all insurers provided online home contents calculators; and

(d) not all insurers provided online home building calculators.

54 For more information about online calculators, see Section F.

Advertising and promotional materials

55 We reviewed the advertising and promotional materials of each insurer including:

(a) copies of all advertisements and promotional materials, including television, radio, online, social media, and print (direct mail, brochures, newspapers, magazines, billboards, and listings in the White Pages and Yellow Pages); and

(b) generic 'brand' advertising, including banner and billboard advertising.

56 Regarding advertising generally, we observed that:

(a) some smaller insurers advertise more frequently than other insurers with a larger market share. These smaller insurers were newer entrants to the home insurance market and, as such, appeared to be heavily marketing their insurance in a way that would increase consumer awareness of their product in order to increase market share;

(b) some insurers' advertising focused heavily on price and did not balance this by disclosing any features of the insurance;

(c) most insurers' advertising referred to 'discounts' or 'special promotions' a consumer could obtain by switching to or purchasing new insurance from that insurer. Discounts or special promotions only apply to the first year's premiums and are generally used to entice new consumers;

(d) disclaimers were sometimes insufficiently prominent or clear; and

(e) some insurers used advertising as way of informing their consumers about their ability to make a claim for any loss or damage caused as a result of a natural disaster event in a particular area.

Staff training and monitoring

57 As part of our review, we requested from insurers copies of their training materials, along with a description of their monitoring and supervision procedures for each point of sale.

58 Overall, methods of training used by the insurers were appropriate and a variety of delivery methods were used to encourage staff engagement.

59 While we observed that all insurers had guidelines and procedures in place for training and monitoring staff, we identified that the training delivered by some insurers:

(a) was limited to the induction of new staff and was not provided on an ongoing basis;

(b) was standardised or generic across home insurance brands (a 'one size fits all' approach to training);

(c) appeared to be very brief (as little as five days training) compared to other insurers, whose training programs spanned several weeks before staff were able to begin selling the insurance;

(d) lacked sufficient detail around the insurance itself and the PDS; and

(e) included a module centred on regulation or compliance, but provided this module in a theoretical way (i.e. context was not given regarding the way regulation or compliance relates to the sales process).

60 We found that some insurers operating under a no advice model provided comprehensive training to staff in line with the requirements outlined in Regulatory Guide 146 *Licensing: Training of financial product advisers* (RG 146) for advisers who provide general advice.

61 The content of most training and development materials we reviewed did not appear to flow through to the telephone scripts or telephone sales recordings we reviewed. For example, one insurer offered comprehensive training to

staff in line with the requirements outlined in RG 146 for advisers who provide general advice. However, in practice this insurer, like most insurers we reviewed, operated under a no advice model.

62 We also found that the monitoring activities of some insurers:

(a) failed to set out what measures or next steps were to be taken in response to identifying an issue or a breach;

(b) focused mostly on one type of active monitoring (e.g. randomly selected reviews of telephone sales calls);

(c) did not monitor branch sales and online sales with the same frequency as telephone sales; and

(d) one insurer did not appear to do any active monitoring of staff conduct (e.g. monitoring sales calls).

63 For more information about insurers' training and monitoring systems, see Section H.

Our good practice observations

64 The findings and good practice observations in this report are intended to encourage insurers to adopt practices that reduce the risk of consumers buying insurance that does not meet their needs. We set out our good practice observations in Table 2.

Table 2: Good practice observations

Area	Good practice observations
Telephone sales calls and scripts	Insurers' training for sales staff and sales scripts could cover the important topics set out below. **The sum insured** Insurers' sales scripts could set out better ways for staff to provide information to consumers on the sum insured, including a plain English explanation and a prominent statement that the amount selected is the most an insurer will pay to rebuild a home and/or replace its contents. Insurers' sales scripts could set out better ways for staff to provide information to consumers on how calculators could be used to help consumers better estimate their sum insured. Built in 'calculator-style' questions in sales scripts that provide consumers with a sum insured range may assist with reducing levels of underinsurance.

<table>
<tr><th>Area</th><th>Good practice observations</th></tr>
<tr><td>Telephone sales calls and scripts (cont.)</td><td>
Features and exclusions
Insurers’ sales scripts could set out better ways for staff to provide information to consumers on:
• insurance features and exclusions. The provision of a key facts sheet may assist here. Insurers could consider incorporating the key facts sheet into telephone sales scripts; and
• how caps and limits operate in practice, through the use of hypothetical examples (similar to the way in which add-on cover, such as portable valuables cover and accidental damage cover, is sold).
Risks of underinsurance
Insurers’ sales scripts could set out better ways for staff to provide information to consumers on:
• the risks of reducing insurance cover, including the risk of underinsurance; and
• the risk of underinsurance when switching insurance. Consumers could be warned at the point of sale that their new insurance may have different or less coverage than their current insurance.
Price of the insurance
Insurers’ sales scripts could set out better ways for staff to provide information to consumers:
• that balances the importance of the price of the insurance with the scope of cover; and
• about the reasons for premium increases (e.g. because flood cover has become a standard inclusion). Sales staff would obviously need to tailor these reasons to the consumer’s situation.
Building code changes and verbal warnings
Sales scripts could provide better detail and structure about the scope of the home insurance being sold (including guidance about how best to estimate the sum insured), rather than purely focused on statutory disclosure and underwriting questions.
Insurers’ sales scripts could set out better ways for staff to provide information to consumers about how best to find out about changes to building codes that may affect rebuilding costs, particularly if the insurer considers that the consumer is located in an area of increased risk for natural perils such as flood, fire or cyclone.
Insurers could include a verbal warning, should the consumer choose to opt out of any optional cover, such as flood cover. The verbal warning could include whether the consumer is considered to be living in a higher risk location (based on the insurer’s risk assessment of the property or area) with the consequences of not being covered for that risk (i.e. no cover in the event of a flood) along with what it would cost, in dollar terms, to include the cover.
</td></tr>
</table>

Area	Good practice observations
Online sales	Insurers could highlight to consumers, at the most relevant point during the online sales process and in a written format appropriate for online sales, all of the information set out above for telephone sales calls. Insurers could include built-in 'calculator-style' questions during the online sales process, to provide consumers with a sum insured range that may assist with reducing levels of underinsurance. Insurers could include links to home building and contents calculators at the most relevant part of the online sales screens (i.e. next to the question about how much a consumer would like to insure for). Insurers could provide the PDS to consumers: • using a link within the online sales process that allows consumers to download or be taken to an online version of the PDS; and • at an early point in the online sales process and potentially more than once. Insurers could consider making the key facts sheet available as a written summary of the insurance features and exclusions within a sales screen (rather than a link) during the online sales process. This may be possible given the key facts sheet is one page.
Online calculators	Insurers could include direct links to the calculators on the brand's homepage of the websites or on the home insurance page towards the top of the page. For online calculators, separate calculators could be made available in addition to being available or incorporated within the online quote process as calculator-style questions. Insurers could aim for consistency between the versions of the separate calculators available on their websites or otherwise let consumers know about the existence of a more detailed version of the calculator from which the consumer might obtain a more accurate quote. Insurers could ensure the ongoing accuracy of their calculators through regular reviews. Insurers could explore how calculators stay up to date with rebuilding costs, including the effect of updated building codes and any other costs that increase after a natural disaster, which may assist with the reducing levels of underinsurance.
Advertising	Advertising could be more balanced by, for example, avoiding a sole focus on price, discounts or special promotions and incorporating information about the scope of the cover being offered. Key features of home insurance that are promoted to consumers as offering a particular benefit or operating in a particular manner should be consistent with the terms of the PDS, including any exclusions, caps or limits that may apply. Insurers could use advertising to alert consumers to important issues, such as calling to make a claim for loss or damage related to a disaster event or reminding consumers about the importance of reviewing their sum insured.

Area	Good practice observations
Staff training	The content of training modules could incorporate the above good practice observations for telephone sales calls and scripts, online sales and online calculators. Training and development could be provided to sales staff on an ongoing basis and updated regularly to incorporate important compliance and/or product changes. Training and development could be less generic and more tailored to individual insurance products and features. This is especially relevant for insurers with multiple home insurance brands. Training and development programs need to balance course content against delivery times. Shorter training programs may not be covering enough or may seek to deliver the training content too quickly. The content of training and development programs could be better incorporated into telephone sales scripts and evidenced in telephone sales calls. Training programs that go beyond no advice models tend to mean that sales staff are better able to provide consumers with more useful and relevant factual information about their insurance.
Staff monitoring	Monitoring could be more robust and include different types of monitoring activities. Monitoring could occur on a more regular and frequent basis, such as weekly, to ensure that once issues are identified they are appropriately remedied in a timely manner (e.g. before they lead to consumer complaints, breaches or insurance cancellations). Monitoring could have clearer 'next steps' once a monitoring activity identifies a breach. For example, a clear process regarding what action was taken beyond monitoring and reporting.

Further work

65 During the course of our review, we identified specific compliance issues that we intend to follow up with insurers on an individual basis.

66 We reviewed a large number of telephone calls where consumers sought further assistance from sales staff. We are therefore considering what, if any, barriers exist to the provision of financial product advice to consumers over the telephone, and whether there is any scope to review these barriers to enhance the ability of insurers to provide advice to consumers purchasing home insurance by telephone.

B Background

Key points

This review furthers the work of REP 54 and REP 89.

When a consumer wants to inquire about or purchase home insurance, they generally do so in three main ways: face-to-face (in a branch or through an intermediary), over the telephone, or online using an insurer's, or one of its representative's, websites.

We asked 12 general insurers (representing 30 home insurance brands) to participate in a broad industry review in relation to the sale of home insurance over the telephone, online and face-to-face, during the review period.

The focus of our findings is on telephone and online sales and inquiries.

Previous work by ASIC

67 This review furthers the work of two previous reports published by ASIC on home building underinsurance: REP 54 and REP 89.

68 REP 54 examined the causes of home building underinsurance after the Canberra bushfires on 18 January 2003 and found that:

(a) standard home building insurance in Australia placed the burden of estimating rebuilding costs on the consumer (unlike insurance in some other countries). This was found to be an intrinsically difficult task requiring technical knowledge;

(b) consumers placed great reliance on their insurer for help in estimating rebuilding costs. However, only a small number of insurers provided consumers with access to reliable or comprehensive tools for estimating the cost of rebuilding their home;

(c) consumers and insurers may not have increased the sum insured over time to keep up with changes in building costs generally, or consumers may not have increased their level of cover after renovating the home;

(d) home building policies are complex and difficult for consumers to compare and, because of this, they may not appreciate the extent to which they are underinsured due to variations in the cover offered by different insurers; and

(e) consumers may make a choice (whether adequately informed or otherwise) to accept a degree of underinsurance on their home.

69 REP 54 suggested that Canberra homeowners affected by widespread fires were underinsured by between 27% and 40% on average.

70 REP 89 examined what steps insurers subsequently took to tackle the causes of underinsurance after the first report. The report also examined the effects of Cyclone Larry in Queensland in early 2006, particularly the extent of underinsurance.

71 REP 89 found that most insurers have taken positive steps to help consumers reduce the problem of underinsurance, including by:

(a) developing new products, such as total replacement policies, to ensure that consumers are adequately covered;

(b) adopting more sophisticated online calculators that provide more accurate estimates; and

(c) educating consumers about underinsurance on websites and in renewal mail outs, and undertaking research in disaster-prone areas.

72 Initial estimates by the Insurance Council of Australia (ICA) were that as many as 50% of houses in the area affected by Cyclone Larry were underinsured to some extent.[11]

73 This report builds on that prior work, and also reviews research into consumer experiences when inquiring about or purchasing home building insurance.

Draft Productivity Commission report

74 On 25 September 2014, the Productivity Commission released its draft report, *Natural disaster funding arrangements* (the draft Productivity Commission report).[12] The terms of reference required the Productivity Commission to undertake an inquiry into the efficacy of current national natural disaster funding arrangements.[13]

75 The draft Productivity Commission report includes commentary on a number of important issues facing consumers during natural disasters, including a lack of consumer understanding about risk and insurance leading to non-insurance and underinsurance.

76 The draft Productivity Commission report discusses how information asymmetries, due to consumers being unable to access relevant information (e.g. information around changes to building codes following a natural disaster that may increase the cost of rebuilding a home) or understand the

[11] REP 89, p. 18.
[12] Productivity Commission, *Natural disaster funding arrangements*, draft report, 25 September 2014, www.pc.gov.au/projects/inquiry/disaster-funding/draft.
[13] Productivity Commission, *Natural disaster funding arrangements*, draft report, 25 September 2014, vol 1, p. iv, www.pc.gov.au/__data/assets/pdf_file/0009/145287/disaster-funding-draft-volume1.pdf.

information provided to them (e.g. PDSs) may negatively impact consumer understanding and also increase levels of underinsurance.

77 The draft Productivity Commission report also discusses how consumers can underestimate their natural hazard risk using an example provided by a large Australian insurer where 40% of customers in New South Wales elected to opt out of flood cover from their home insurance despite living in a location at risk of flooding.[14]

78 The draft Productivity Commission report also notes that PDSs, a key mechanism through which insurers provide information to consumers, are not working as they should because consumers do not read them, or find them long and complex.[15]

79 While the report suggests that the introduction of a key facts sheet requirement is one reform that could improve policyholders' understanding of their insurance product, it notes that a key facts sheet will not provide all the information policyholders need to make a fully informed decision. For example, a key facts sheet does not provide information on a consumer's level of underinsurance or information about changes to building codes and the effect such would have on rebuilding costs.

80 The effectiveness of key facts sheets as a tool for increasing consumer awareness may also be limited if they are not accessed on the internet or given verbally in telephone sales.[16] To help address some of these concerns, the report includes a draft recommendation that:

> Insurers should provide additional information to households regarding their insurance policies, the natural hazards they face and possible costs of rebuilding after a natural disaster. This work could be led by the Insurance Council of Australia to ensure consistency in the provision of information across insurers.

81 We consider this recommendation to be a positive step toward helping consumers better understand the insurance they are purchasing so that it meets their needs.

Scope of the review

82 In late 2013, we asked 12 general insurers (representing 30 home insurance brands) to participate in a broad industry review in relation to the sale of

[14] Productivity Commission, *Natural disaster funding arrangements*, draft report, 25 September 2014, vol 2, p. 385, www.pc.gov.au/__data/assets/pdf_file/0010/145288/disaster-funding-draft-volume2.pdf.
[15] Productivity Commission, *Natural disaster funding arrangements*, draft report, 25 September 2014, vol 2, p. 386, www.pc.gov.au/__data/assets/pdf_file/0010/145288/disaster-funding-draft-volume2.pdf.
[16] Productivity Commission, *Natural disaster funding arrangements*, draft report, 25 September 2014, vol 2, p. 386, www.pc.gov.au/__data/assets/pdf_file/0010/145288/disaster-funding-draft-volume2.pdf.

home insurance over the telephone, online and face-to-face, during the period 1 March 2013 to 31 August 2013 (the review period).

83 Our selection of the insurers and home insurance brands included in the review was based on:

(a) market prominence and market share;[17] and

(b) ensuring a representation of different sections of the industry, including larger, more established insurers, bank-owned insurers and smaller, new entrants.[18]

84 To help us better understand how home insurance is sold, as well as the insurers that operate within this market, we sought the following from insurers:

(a) information about the sale and distribution channels for home building and home contents insurance, including any 'home insurance brands' and authorised representatives that insurers may sell this insurance through;

(b) statistics about total premiums collected, policies issued and renewed, and inquiries made during the review period;

(c) a randomised sample of telephone recordings, recording sales calls and inquiries about home insurance during the review period;[19]

(d) point-of-sale telephone scripts and staff training materials;

(e) advertising and promotional materials;

(f) online point-of-sale processes; and

(g) PDSs.

85 In obtaining the information we did not exercise ASIC's compulsory information-gathering powers, except in relation to telephone recordings of the sale of or inquiries about home insurance.

86 We acknowledge the cooperation and assistance of all participating insurers.

87 The focus of our findings is on telephone and online sales and inquiries. We understand that these two channels account for a large proportion of the way in which consumers say they purchase home insurance. According to research conducted by Roy Morgan,[20] of those who have household

[17] Two of the largest insurers (by market share) in the domestic home insurance market were included in this review.
[18] We included three bank-owned insurers along with two more recent entrants to the market.
[19] ASIC determined the sample selection frame. In order to ensure we listened to a random sample of calls, we asked insurers to provide us with five calls (three sales and two quote calls) from each month under review between March and August 2013. We asked for these calls for specific dates from each insurer.
[20] Source: Roy Morgan Single Source data (12 months to December 2012).

insurance, 57.4% obtained their insurance directly from an insurance company either over the phone or online via the company's website.[21]

88 REP 416 reported that 74% of surveyed consumers used an online channel for gathering information when seeking a quote, with some consumers gathering information online before calling insurers to verify a quote or to gather further information.[22]

89 We also considered the concerns raised by consumer groups with ASIC that were focused on the telephone sales process.

90 We consider that many of our findings and recommendations will apply to face-to-face sales of and inquiries about home insurance and may also have a broader application across other general insurance lines where consumer understanding is low, including motor vehicle insurance, travel insurance and consumer credit insurance.

The home insurance market in Australia

What is home insurance

91 Home building insurance provides cover for costs associated with loss or damage to a property or building owned by the policyholder.[23] Home building insurance covers the cost of replacing or repairing the policyholder's home, including fixtures (i.e. the building and fittings such as lights).[24]

92 Home contents insurance provides cover for costs associated with loss, theft or damage to the policyholder's household items and personal possessions (e.g. furniture, TV, electrical appliances).[25] Home contents insurance covers the cost of replacing or repairing the policyholder's household items and personal possessions.

93 Home building and contents insurance are 'bundled' policies that combine the features of both types of insurance.

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[21] Base sample: 31,798 Australians who have household insurance. Roy Morgan Research. Note: this figure does not take into account those who may have obtained their home insurance over the phone or online through other means such as directly from a bank or through an intermediary.

[22] REP 416, Figure 11 at p. 49. Some consumers used only one channel, while others used a combination. Based on 486 policyholders who sought a quote. Please note that this was based on an online survey.

[23] Understand Insurance, *Household insurance*, webpage, ICA, http://understandinsurance.com.au/types-of-insurance/household-insurance.

[24] MoneySmart, *Home & contents insurance*, webpage, ASIC, 5 February 2014, www.moneysmart.gov.au/managing-your-money/insurance/home-and-contents-insurance#home.

[25] Understand Insurance, *Household insurance*, webpage, ICA, http://understandinsurance.com.au/types-of-insurance/household-insurance.

Types of home building insurance

94 Generally, there are three main types of home building insurance offered by insurers.

Table 3: Types of home building insurance

Total replacement policies	The insurer agrees to cover whatever it costs to repair or rebuild the building, less any insurance exclusions
Sum insured policies	The sum insured is the maximum amount the insurance company will pay in the event that the home is totally destroyed or badly damaged. Consumers select the sum insured amount.
Extended cover policies	Extended cover policies have a sum insured amount and an extra specified buffer on top of the sum insured covering increased costs arising from a total loss to offer some protection against underinsurance.

Levels of cover

95 In terms of levels of cover, home building and contents insurance has been commonly categorised as ‘defined events’ or ‘accidental damage’ cover. In defined events insurance, the insurer provides cover for only the specified range of events, typically including fire, storm, and theft. Accidental damage insurance provides a greater level of cover than defined events, typically covering the defined events plus accidental loss or damage.

96 In recent times, insurers have tended to offer up to three levels of cover:

(a) *standard or basic level*—marketed as the basic level of cover that covers a limited range of defined events;

(b) *intermediate or medium level*—marketed as the mid-range level of cover that covers the basic level of defined events and provides other extras or more benefits (e.g. higher amounts of applicable caps or limits and/or accidental damage cover); and

(c) *top or premium level*—marketed as the top of the range insurance that provides the greatest level of cover (e.g. the highest amount of applicable caps or limits and cover for events excluded under standard or intermediate level of cover such as portable valuables cover).

97 It is important to note that all home insurance is subject to applicable conditions, exclusions, limitations or caps on the level of cover set out in the policy.

How home insurance is sold

98 When a consumer wants to enquire about or purchase home insurance, they can do so in three main ways:

(a) face-to-face in a branch (bank branch or insurer branch) or through an intermediary such as an insurance broker or agent;

(b) over the telephone, by calling an insurer's call centre; or

(c) online using an insurer's, or one of its representative's, websites.

The home insurance reviewed for this report

99 The focus of this review was on the home insurance distributed by 12 insurers (representing 30 home insurance brands) including the three different channels set out in paragraph 98.

100 This section summarises the data we obtained about the number of policies sold, claims made and cancellations processed in relation to 12 insurers that we reviewed for the relevant period.

Sales by distribution channel

101 In total, during the review period, the 11[26] insurers sold 514,194 new home insurance policies. Of these:

(a) 11.01% were sold online;

(b) 58.55% were sold by telephone;

(c) 23.70% were sold through a branch;

(d) 6.20% were sold by a broker; and

(e) 0.54% were sold by a financial adviser.

Sales volumes and premiums collected

102 There were a total of 3,945,866 policies in force (as at 31 August 2013) for the 11 insurers. Of these:

(a) 499,442 were new policies (excluding renewals); and

(b) 2,024,180 were renewal policies.

103 The total premiums collected for new and renewed policies were $2.175 billion.

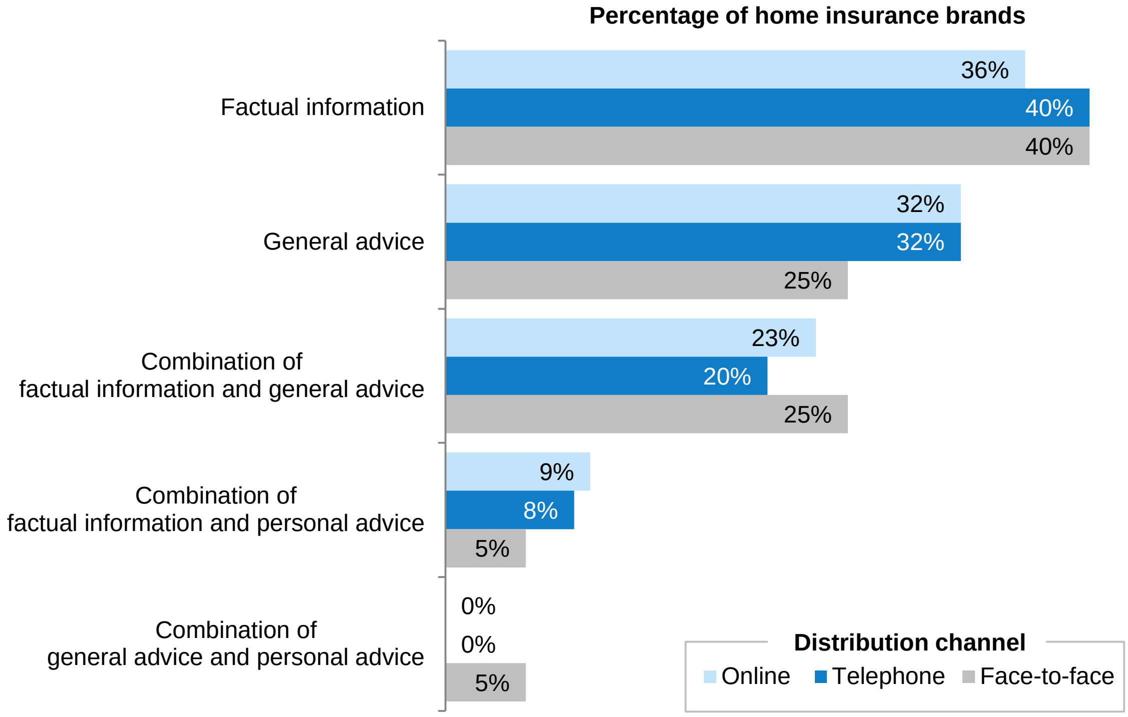
[26] One insurer was not able to provide us with this information.

Advice models used by distribution channel

104 We asked each insurer whether a general advice, personal advice or factual information model is used for each distribution channel (online, telephone, face to face) for the sale of new policies.

105 The results are summarised in Figure 1.

Figure 1: Advice models used by online, telephone and face-to-face distribution channels



Note: Based on advice model data submitted to ASIC by 30 insurance brands. Advice model data was not provided by four of the brands.

C Regulatory landscape

Key points

General insurance is subject to the statutory requirements and self-regulatory standards of:

- the *Corporations Act 2001* (Corporations Act) (paragraphs 106–130);
- the *Insurance Contracts Act 1984* (Insurance Contracts Act) (paragraphs 132–138);
- the *Australian Securities and Investments Commission Act 2001* (ASIC Act) (paragraphs 139–140);
- the General Insurance Code of Conduct 2014 (GI Code) (paragraphs 141–145); and
- the Australian Prudential Regulation Authority (APRA) (paragraphs 146–147).

Corporations Act

Licensing

106 The Corporations Act requires persons who carry on a business of providing financial services in Australia to hold an Australian financial services (AFS) licence or, depending on the financial services provided, be an authorised representative of an AFS licensee.

107 The definition of 'financial services' under the Corporations Act includes the issuing of general insurance products and related activities (such as arranging for the issue of general insurance products and providing advice on these products).

108 General insurance products are financial products for the purposes of the Corporations Act.

109 All the insurers that participated in this review hold AFS licences.

110 The Corporations Act sets out the general obligations of an AFS licensee, including that it:

(a) provides financial services covered by the licence efficiently, honestly and fairly;

(b) complies with financial services laws (including the ASIC Act and Insurance Contracts Act); and

(c) ensures that its representatives are adequately trained, and are competent, to provide those financial services.

Disclosure

111 Under the Corporations Act, AFS licensees must also comply with certain disclosure requirements when providing financial services to retail clients.[27]

112 Some of these requirements also depend on whether the licensee provides general advice or personal advice.[28]

113 There is a tailored PDS regime for general insurance products[29] that:

(a) removes certain PDS content requirements for general insurance products;

(b) removes certain PDS content requirements where the information is disclosed by the product issuer in another document (e.g. policy terms and conditions); and

(c) specifies how a product issuer is to disclose significant characteristics or features of a general insurance product and the rights, terms, conditions and obligations attaching to the product.

Key facts sheet

114 A key facts sheet requirement for home building and home contents insurance was introduced in response to the severe flooding in Queensland, New South Wales and Victoria during 2010 and 2011. The large number of people affected by the floods who held inadequate insurance highlighted consumer confusion over the extent to which insurance provides cover for flood and what 'cover for flood' means.[30]

115 On 15 April 2012 the Insurance Contracts Act was amended to allow regulations to be made to require insurers to provide consumers with a one page key facts sheet for home building and home contents insurance.[31] Subsequently, the Insurance Contracts Regulations 1985 (Insurance Contracts Regulations) were amended to introduce the key facts sheet requirement.

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[27] Section 761G defines 'retail client'. Home building and home contents insurance are deemed as being provided to retail clients: see s761G(b)(ii) and s761G(b)(iii); and regs 7.1.12 and 7.1.13 of the Corporations Regulations 2001.

[28] See Regulatory Guide 36 *Licensing: Financial product advice and dealing* (RG 36) for discussion of the differences between personal advice and general advice.

[29] Regulatory Guide 168 *Disclosure: Product Disclosure Statements (and other disclosure obligations)* (RG 168) at RG 168.10

[30] Treasury, *One page key facts sheets for home building and home contents insurance policies*, exposure draft, 10 August 2012, www.treasury.gov.au/ConsultationsandReviews/Consultations/2012/One-page-key-facts-sheets-for-home-insurance-policies.

[31] Treasury. *One page key facts sheets for home building and home contents insurance policies*, exposure draft, 10 August 2012, www.treasury.gov.au/ConsultationsandReviews/Consultations/2012/One-page-key-facts-sheets-for-home-insurance-policies.

116 From 9 November 2014[32] a key facts sheet must contain the information, and be completed in the way specified in the prescribed form set out in the Insurance Contracts Regulations.

117 The purpose of a key facts sheet is to allow consumers to quickly and easily check the basic terms of the policy, including the nature of cover and key exclusions. The key facts sheet will also help consumers to compare the features of various policies and select the appropriate insurance for their needs.[33]

Class Order [CO 11/842]

118 In 2011, ASIC issued Class Order [CO 11/842] *PDS requirements where a quote for a general insurance product is given* to change the time for giving a PDS when a consumer seeks a quote for general insurance during a telephone call.

119 Under the Corporations Act, a quote may be an invitation to a retail client to apply for the issue of a particular insurance policy on the terms specified in the quote. As the quote may constitute an ‘offer to issue’ that particular policy, a PDS must be given at, or before, the time the quote is provided.

120 Given that quotes for general insurance (including home insurance) are often sought by consumers during telephone calls to help consumers compare insurance, ASIC provided the relief in [CO 11/842] to address practical difficulties in giving a PDS during a telephone call.

121 [CO 11/842] applies the requirement to give a PDS differently depending on whether the consumer wants to be given a PDS at or around the time the quote is given. Under the relief, the consumer can choose to receive the PDS and, if they do, the insurer must give the PDS as soon as practicable after the quote is given. This means that the PDS can be given after the telephone call.

122 The relief given by ASIC does not affect the time at which a PDS must be given if a quote is given during an unsolicited telephone call, or is otherwise unsolicited by the consumer.

Regulatory guides

123 Regulatory Guide 36 *Licensing: Financial product advice and dealing* (RG 36) gives guidance on the meaning of ‘provide financial product advice’ and the meaning of ‘deal in a financial product’. It also provides guidance on

[32] Insurance Contracts Amendment Regulation 2012 (No. 2)
[33] Treasury, *Key facts sheet: Home building and home contents insurance policies*, discussion paper, 29 February 2012, www.treasury.gov.au/~/media/Treasury/Consultations%20and%20Reviews/Consultations/2012/Key%20facts%20sheet%20for%20home%20building%20and%20home%20contents%20insurance%20policies/Key%20Documents/PDF/KFS_homebuilding.ashx.

the obligations that apply to providers of financial services, including the differences between personal advice and general advice.

124 RG 146 sets out minimum training standards that apply to advisers and how advisers can meet these training standards.

125 General insurance products, including home insurance products, are classified as Tier 2 products for training purposes in RG 146.

126 Persons providing advice only in relation to general insurance products can meet the training standards by completing a training course that is not on the ASIC Training Register if they are assessed as meeting the training standards by their AFS licensee. Persons advising on Tier 1 products are required to be trained to a higher knowledge and skill level and have a diploma-level education.

127 RG 146.22 provides an exemption under which customer service representatives (i.e. call centre or front desk staff who deal with initial queries from consumers) may provide financial product advice to consumers in the course of their work but are not required to meet the training standards if the only financial product advice they provide is either:

(a) derived from a script approved by a person who meets the training standards; or

(b) made under the direct supervision of a person who meets the training standards.

128 Regulatory Guide 244 *Giving information, general advice and scaled advice* (RG 244) explains the difference between factual information, general advice and scaled advice (personal advice that is limited in scope), and how to meet advice obligations in Ch 7 of the Corporations Act. It is aimed at facilitating access for retail clients to good-quality information and advice about all financial products.

129 Regulatory Guide 168 *Disclosure: Product Disclosure Statements (and other disclosure obligations)* (RG 168) gives guidance on preparing a PDS in compliance with the Corporations Act. It sets out good disclosure principles and explains how ASIC will monitor the use of PDSs and enforce the PDS requirements.

130 Regulatory Guide 175 *Licensing: Financial product advisers—Conduct and disclosure* (RG 175) considers how certain conduct and disclosure obligations in Pt 7.7 of the Corporations Act apply to the provision of financial product advice to retail clients.

131 Regulatory Guide 234 *Advertising financial products and services (including credit): Good practice guidance* (RG 234) contains good practice guidance

to help promoters comply with their legal obligations to not make false or misleading statements or engage in misleading or deceptive conduct.

Insurance Contracts Act

132 The Insurance Contracts Act regulates the content and operation of insurance contracts. Section 13 sets out a statutory 'duty of utmost good faith' between a policyholder and an insurer.

133 The Insurance Contracts Act also sets out what consumers must do when applying for insurance, including their duty to disclose to the insurer all relevant information about the risks the insurer is accepting.

134 Under recent amendments to the Insurance Contracts Act, ASIC has been given a range of specific powers, including the power to:

(a) take licensing action for a breach of the duty of utmost good faith in relation to claims handling;[34]

(b) take representative action on behalf of third-party beneficiaries (as well as policyholders);[35] and

(c) intervene in any proceedings under the Insurance Contracts Act (based on s1330 of the Corporations Act).[36]

Standard cover

135 The Insurance Contracts Act and the Insurance Contracts Regulations establish a 'standard cover' regime for certain types of insurance, including home building and home contents insurance.

136 The Insurance Contracts Regulations establish standard provisions defining the risks or events covered and the minimum amounts of cover. For example, standard cover stipulates the prescribed events that home building insurance must cover, including fire, earthquake, theft, storm and flood.

137 The Insurance Contracts Regulations also prescribe the exclusions to standard cover for home building and home contents insurance. For example, standard cover for home contents insurance excludes events such as depreciation, wear and tear, rust or corrosion, destruction or damage, and the incurring of a liability as a result of the use of the residential building for the purposes of a business, trade or profession.

[34] Insurance Contracts Act, s14A.
[35] Insurance Contracts Act, s55A.
[36] Insurance Contracts Act, s11F.

138 If an insurer wishes to vary the terms of the insurance contract in a way that would decrease the policyholder's cover, and deviate from standard cover, the insurer must clearly inform the policyholder in writing of that fact before the contract is entered into. In practice, most home insurance deviates from standard cover, and the PDS is used to clearly inform the policyholder of this. This means in practice that standard cover events may be excluded or limited in some way from home insurance.

ASIC Act

139 The ASIC Act contains ASIC's consumer protection powers in relation to financial products and services, including general insurance.

140 It includes prohibitions against misleading or deceptive conduct, unconscionable conduct, and false or misleading representations. The exclusion for claims handling in the Corporations Act is not mirrored in the ASIC Act.

General Insurance Code of Practice

141 The GI Code is a voluntary industry code administered by the ICA. The current GI Code came into effect on 1 July 2014, and replaced the previous 2012 GI Code. It covers nearly all types of general insurance, including home building and home contents insurance.

142 The GI Code commits subscribing insurers to standards of service in addition to their statutory obligations. Members of the ICA offering insurance covered by the GI Code must adopt the 2014 GI Code by 30 June 2015. Currently, 52 general insurers have subscribed to the GI Code.[37]

143 The GI Code sets out standards of service that general insurers must meet when consumers are buying insurance, making claims, experiencing financial hardship, requesting information, or wanting to make a complaint.[38]

144 It also sets out timeframes for insurers to respond to claims, complaints and requests for information from consumers. The GI Code also introduces a new governance framework, the Code Governance Committee, to ensure code compliance is effectively monitored and enforced. The Committee is a separate independent entity to the ICA and GI Code signatories.[39]

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[37] ICA, *Subscribers to the Code*, webpage, 2014, http://codeofpractice.com.au/about-the-code/subscribers-to-the-code.
[38] ICA, *Code FAQs*, webpage, 2014, http://codeofpractice.com.au/faq.
[39] ICA, *New General Insurance Code of Practice sets benchmark in industry self-regulation*, media release, 1 July 2014, www.insurancecouncil.com.au/assets/media_release/2014/code%20of%20practice/140701%20Code%20of%20Practice.pdf

145 The ICA has not sought ASIC's approval of the GI Code.

Australian Prudential Regulation Authority

146 APRA regulates prudential standards for general insurers as well as life insurers, deposit-taking institutions, and superannuation funds (excluding self-managed funds).

147 APRA supervises general insurers under the *Insurance Act 1973* (Insurance Act). APRA's responsibilities under the Insurance Act include:

(a) authorising companies to carry on a general insurance business; and

(b) monitoring authorised general insurers to ensure their continuing compliance with the Insurance Act—in particular, with the Act's minimum solvency requirements.

D Telephone sales

Key points

Scripts for telephone sales are generally designed to meet the insurer's need to understand certain risk or underwriting criteria rather than to enhance consumer understanding of the home insurance they are inquiring about or purchasing, including estimating the sum insured.

In the calls we reviewed, consumers were unsure about how best to estimate the appropriate amount of cover. In many cases consumers went on to make uninformed and potentially poor decisions about how best to estimate the sum insured.

Consumers often asked questions and sought assistance from insurers about:

- how best to calculate an appropriate sum insured amount;
- insurance features and exclusions; and
- the price (premium) of their insurance.

Our review of telephone sales

148 As part of our review we requested from insurers a random sample of telephone recordings of the sale of or inquiry about home insurance.

149 Our purpose in listening to these recordings was to help us better understand:

(a) how home insurance is sold over the telephone in practice, including identifying poor selling practices and gaps in consumer understanding and decision making;

(b) any areas in which consumers were commonly making inquiries about particular insurance (whether that be by asking questions or seeking information, clarification and/or guidance); and

(c) identify opportunities to raise standards and encourage insurers to adopt practices that reduce the risk of consumers buying insurance that does not meet their needs.

150 At a high level, we found that telephone sales were generally designed to meet the insurer's need to understand certain risk or underwriting criteria in order to sell the insurance, rather than to enhance the consumer's understanding of the product they are purchasing. This seems to be considered the purpose of the PDS.

151 Consumers asked questions and sought assistance from insurers about:

(a) how best to calculate an appropriate sum insured amount;

(b) insurance features and exclusions; and

(c) the price (premium) of their insurance.

Sum insured

152 In relation to the sum insured, most consumers were unsure about how best to estimate the appropriate amount of cover. These consumers asked for guidance from insurers. Most insurers' sales staff were reluctant to provide consumers with any form of guidance, presumably to avoid any risk of providing personal advice.

153 This did not occur for total replacement policies, as there was no need for consumers to estimate the sum insured.

154 In most cases, the response to questions about selecting the sum insured was that sales staff could not comment and, in nearly all telephone calls reviewed, only a small number referred the consumer to the insurer's online calculator. We consider not referring consumers to available tools (such as calculators) when required is a poor selling practice, which insurers could improve.

155 One example of a telephone call we reviewed in which calculators were not mentioned (and where use of a calculator may have assisted the consumer to purchase insurance that better met their needs) is transcribed (in part) below:

Insurer:	So how much would you like to insure the building for?
Consumer:	Um … um … We bought it for $275,000 … I don't know how much it … have you got an idea?
Insurer:	Unfortunately I can't advise, it is a figure that you do need to give me.
Consumer:	Uh okay, sorry I don't know because the bank gave us, uh, the last insurance that we had is, the bank had it, so … hmm … probably … the amount itself? It's alright?
Insurer:	Yep, so we're only covering the building, ah, so not the price of the land—
Consumer:	Ahh.
Insurer:	—cause we don't cover land, so just the price on the building.
Consumer:	So that's the building … it's um … probably about … hmm … $150 [thousand].
Insurer:	$150?
Consumer:	Is that reasonable?
Insurer:	Yep, and how much would you like to cover your contents for?

156 In many cases consumers went on to make uninformed and potentially poor decisions about how best to estimate the sum insured.

157 For instance, we listened to a number of calls where consumers referred to the methodology they used to estimate a sum insured. Some of these included using:

(a) the original purchase price of the home;

(b) the market value of the home. This was often obtained by a recent sale of a similar home in their neighbourhood or by the real estate section of their local paper; or

(c) the cost of a similar ‘package’ home they had seen advertised.

158 The above methodologies for estimating the sum insured were also found in REP 416, where the results of an online survey showed the most common method used to calculate the sum insured was to check ‘house prices in the area as a guide’.[40]

159 One example of an ASIC-reviewed telephone call where the consumer made a poor decision about how best to estimate the sum insured is transcribed (in part) below:

Insurer:	How much do you need to insure your home for?
Consumer:	Um, well, that’s a hard one, isn’t it? It’s a bit, um … unsure. Is it, do you replace … what do they say … insure for house replacement? How does it work?
Insurer:	If your house burnt down and we had to remove debris and rebuild, how much would that cost?
Consumer:	Umm, that’s the thing isn’t it … you have to work all that out. My house is valued at $340,000 to $350,000 if I sold it. So do you go on what it’s worth or do you just go on rebuilding? I’m all new to this so I don’t really know.
Insurer:	Yeah, so you don’t include the land value obviously when you …
Consumer:	No, no. So what if I was to … just as a rough guess … if I went $250,000 to rebuild? Does that sound too much or … ?
Insurer:	Yep … I can’t say yes or no.
Consumer:	No, no, okay, let’s go $250,000 to rebuild.
Insurer:	And the contents?
Consumer:	$60,000.

160 This example highlights a common error made by consumers when trying to estimate their sum insured—that is, using the market value less the land value. Consumers need to be made aware that market value is not comparable to the cost of rebuilding a home.

[40] When asked ‘When you last decided on the sum insured, what was the most important factor when you made that decision?’, 23% of respondents selected the option ‘I checked house prices in the area as a guide’: REP 416, p. 64.

161 The consumer in the example at paragraph 159 would have benefited from using a sum insured calculator to assist them with estimating the cost of rebuilding their home.

162 We also consider that the consumer from this call may have been confused about the difference between a sum insured policy and a total replacement policy, as the consumer describes the insurance as ‘house replacement’. We are also aware that this consumer was switching from an insurer who offers total replacement policies. The consumer appeared to be under the impression that the insurance they were switching to ‘covers everything’:

> Look, as long as I’m covered for fire and, um, pretty much damage, um, yeah, I don’t know what my other one sort of covered … I guess that one sounds like as if it covers everything.

163 Such an assumption is discussed in REP 416 where a finding of the research was that:

> consumers do not fully understand the difference between ‘sum insured’ and ‘total replacement’ policies.[41]

164 Later in the same telephone sale, the consumer makes a poor assumption about risk when they discover that the insurer to which they are switching offers a lower premium:

Insurer:	[Provides consumer with annual premium].
	How does that compare?
Consumer:	Oh, very good!
Insurer:	Yeah?
Consumer:	Yes, it does, actually.
Insurer:	Saving a bit of money there?
Consumer:	Um, yes, probably a couple of hundred.
Insurer:	Wow.
Consumer:	Um, yeah, it does, and you know, that is what concerns me though, mainly when you do shop around, whether I’m going to be covered for my essentials.
	But, you know what, I figure that the area that I’m in … and being in a villa I’m pretty much …
Insurer:	Yeah, and you’re definitely covered for fire, theft, storm, malicious damage and accidental breakage.
Consumer:	And, yeah, when you’re here on your own that’s pretty much it, isn’t it?
Insurer:	Yeah … So did you want me to start this one for you?

165 Here the consumer appears to be making poor assumptions about the risks their property may be exposed too based on ‘the area that I’m in’ and the fact they live in a villa. This may be true for some insured risks, such as theft, but

[41] REP 416, p. 61.

may not necessarily be the case for other risks. In the event of total loss, the consumer may also be surprised if they are underinsured, given that they appear to think that their policy will 'cover everything'.

166 Poor assumptions and decision making by consumers around how to estimate a sum insured was evident in the consumer research findings from REP 416, where it was noted that:

> Estimating how much to insure the building for was 'guesswork'. Some consumers guessed the market value while others guessed the rebuilding costs. Some myths exist about rebuilding costs which need to be addressed – notably that the cost of using friends and family to help with the rebuilding should determine the sum insured.[42]

167 We consider that, at a minimum, sale staff could help consumers who are seeking assistance with estimating their sum insured, preferably by asking calculator-style questions during the sales process and providing a range from which the consumer can choose their sum insured. A consumer can also be encouraged to use the insurers' online calculator to check the amount they have selected.

168 We also consider that insurers' sales staff could improve consumer understanding by reframing the way they ask consumers about the sum insured. For example, some insurers ask consumers how much they would like to insure for. This does not draw the consumer's attention to the important consideration that the sum insured is the amount that a consumer needs to rebuild their home in the event of a total loss.

169 Drawing a consumer's attention to what a sum insured is designed to cover is important when considered against an important finding of REP 416 that some consumers with sum insured policies assumed that an insurer would 'totally replace' their home it is was destroyed.[43] A better way of framing the question might be to ask what it would cost the consumer to rebuild their home at today's prices.

170 Some of the insurers we reviewed did frame their sum insured question in this or a similar way. For these calls, we found that there were fewer examples where consumers were making poor decisions around sum insured amounts (e.g. using an uninformed estimate of market value).

171 By reframing the question, insurers are presenting the information in a more salient way that consumers can understand. It better allows them to estimate the sum insured because the question draws the consumer's attention to the meaning of sum insured and what it is designed to cover.

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[42] REP 416, p. 59.

[43] REP 416, Table 3 on p. 61 shows that one in ten of the consumers who did not have a total replacement policy stated that it was insured to its replacement value. This is important because it demonstrates that some consumers may have believed that the sum they had insured their property for would be sufficient for its total replacement.

172 In our review, we found that the telephone sales calls for the five insurers with calculator-style questions tended to avoid situations where the consumer asked for assistance with estimating the sum insured and then had to make an uninformed estimate (because sales staff advised they could not assist in any way).

173 This process did not appear to add to the time taken to purchase the insurance, as the questions asked by a calculator are generally similar or identical to the questions already asked of the consumer during the sales process (e.g. location of home, type of building, construction of building). This process also avoids situations where consumers have to take additional steps to use an online calculator while on the phone to an insurer or call back after using a calculator.

174 We consider that incorporating calculator-style questions into the sales process may encourage some consumers to make better decisions regarding their sum insured amount. The questions would give them a sum insured range to choose from, thus narrowing the choice frame and potentially making consumers less vulnerable to choice overload.

175 By focusing consumers' attention on the right parameters in which to make a decision, this built-in approach to calculators may also help minimise the chance of consumers using inappropriate methods to calculate a sum insured (such as the market value of their home or purely guessing the amount), which would in turn reduce the risk of underinsurance for the consumer.

176 We also observed that most consumers made better decisions regarding their sum insured (i.e. they chose to stay within the sum insured range recommended by the insurer rather than go elsewhere and choose their own lower sum insured) when sales staff were able to explain the following to a consumer:

(a) what sum insured means (i.e. the most the insurer would pay in the event of loss);

(b) what the sum insured amount needs to cover (i.e. the cost of rebuilding the home at current prices); and

(c) the potential consequences of not having an adequate sum insured (the risks of underinsurance).

177 This suggests that consumers need more salient information to help them understand things that may otherwise seem unclear or intangible to them. The salient information needs to be appropriately balanced in order to help manage two competing behavioural biases:

(a) *overconfidence*—where consumers may overestimate the level or nature of their cover and underestimate the risks; and

(b) *loss aversion*—where consumers may overreact to risk (or certain types of risk) because they are more sensitive to potential losses.

Good practice observations

To assist with reducing levels of underinsurance, insurers' sales scripts could set out better ways for staff to provide information to consumers:

- on the sum insured, including a plain English explanation and a prominent statement that the amount selected is the most an insurer will pay to rebuild a home and/or replace its contents; and
- on how calculators could be used to help consumers better estimate their sum insured, including the possibility of built in 'calculator-style' questions in sales scripts that provide consumers with a sum insured range.

Insurers' training for sales staff could also cover these important topics.

Insurance features and exclusions

178 Many consumers wanted to know what types of loss were included and excluded in the insurance. Most of these consumers wanted to know about a specific insured event—such as a flood, storm, fire or cyclone—and whether it was covered. Some consumers also wanted to know about whether any caps or limits applied to any insured events.

179 Most consumers were provided with some or minimal information and then referred to the PDS.

180 Many sales staff would attempt to answer the consumer's question about whether a particular event (e.g. a storm, fire, flood) or item (e.g. paintings, carpets) was covered by answering 'yes' or 'no'. However, most consumers were encouraged to read the PDS.

181 One insurer's sales staff repeatedly read verbatim from the PDS when a consumer asked a question about the scope of the insurance.

182 In some instances it was clear that the consumer's question had not been comprehensively answered as only the inclusions (e.g. the 'What you are covered for' section in the PDS) was read out for the particular event without any reference being made to the exclusions or limitations attached to that event.

183 This is one example of a telephone call we reviewed where this occurred:

Consumer:	With the, like, how's the cover for storm damage or flood? So say if the washing machine floods. That's covered?
Insurer:	Yep.
Consumer:	And storm damage. What sort of storm … um …
Insurer:	Okay, storm includes violent wind, thunderstorms, including tornadoes, cyclones, heavy rain, heavy hail, snow …

Consumer:	Okay, yep.
Insurer:	And it also covers flooding—loss or damage caused by the covering of normally dry land by water that has escaped or been released from the normal confines of any lake, river, creek, natural water course, whether or not altered or modified, or any reservoir, canal or dam.

184 In this example, we consider that the consumer may think that they are ‘fully covered’ for this event, when in reality there are certain exclusions or limitations that apply. We reviewed the PDS for this insurer and noted that exclusions applied to storm cover.

185 In the case of another insurer, we observed that sales staff were less confident answering questions about cover. We listened to a call where the staff member transferred the consumer to the claims department to answer questions about cover, as the staff member was unable to assist and the customer was insistent on receiving an answer.

186 For some insurers we observed that sales staff were able to provide consumers with better information and guidance for optional add-on cover, such as accidental damage cover for home building insurance and portable valuables cover for home contents insurance.

187 For example, some sales staff provided detailed explanations of what the add-on cover was designed to insure and included examples of hypothetical scenarios to demonstrate how the cover would apply in practice. Some staff members provided this without prompting from the consumer.

188 We observed that consumers were more likely to purchase add-on cover if the staff member provided this additional information.

Good practice observations

Insurers’ sales scripts could set out better ways for staff to provide information to consumers on:

- insurance features and exclusions. The provision of key facts sheets may assist here. Insurers could consider incorporating the key facts sheet into telephone sales scripts; and
- how caps and limits operate in practice, through the use of hypothetical examples (similar to the way in which add-on cover, such as portable valuables cover and accidental damage cover, is sold).

Insurers’ training for sales staff could also cover these important topics.

The price of the insurance

189 We reviewed a large number of calls where the focus of the call was on the price of the insurance. While the objective of these calls was always the

same (to obtain cheaper insurance), consumers' reasons for wanting cheaper insurance appeared to vary.

190 We identified three broad categories of consumers who were seeking cheaper insurance:

(a) *Switchers*—Consumers who were shopping around to see whether they could get a 'better deal'.

(b) *Reactive consumers*—Consumers who were reacting to the inclusion of flood cover in their insurance (either as standard cover or on an opt-out basis) as a perceived reason for an increase in their premium. These consumers had assessed their risk of flood to be 'low' and therefore did not want to pay for a risk that they considered remote.

(c) *Higher risk consumers*—Consumers who were unhappy that their premiums had increased, often more than once, as a result of being assessed by an insurer as 'higher risk' based on where they lived.

Switchers

191 Most switchers were characterised by a desire to 'shop around' each year to see whether they could get a better deal. Most of these consumers appeared to be switching to cheaper insurance out of a desire for choice, rather than as a reaction to large increases in premiums with their current insurer. REP 416 found that some consumers feel empowered by being able to actively negotiate the premium with insurers, which may also influence switching behaviour.[44]

192 Some of the telephone calls we reviewed indicated that the consumer was motivated to call and seek a quote as a result of the insurer's heavily price-focused advertising.

193 We consider a focus on price complements consumers' tendencies to exert 'myopic' behaviour in decision making. Consumers are myopic when they make a decision that will deliver a short-term reward (e.g. cheaper insurance) over a longer term reward (e.g. being adequately insured in the event of a disaster event sometime in the future).

194 The outcome of many calls we listened to was that the consumer would switch to the cheaper insurance without a great deal of discussion about the scope of insurance offered under the new policy. This finding becomes more concerning when we consider a key finding from REP 416, that the price of insurance dominated consumers' reasons for inquiring and this focus limited the information they sought about policy variation.[45]

[44] REP 416, p. 41.
[45] REP 416, p. 37.

195 We consider that consumers who purchase or switch insurance purely to pay a cheaper premium need to be mindful of reducing the scope of their insurance cover in return for cheaper insurance.

196 Many consumers who asked questions about the scope of the insurance were referred to the PDS, which they had not yet received or would be unlikely to read.

197 We consider that advertisements based purely on price do little to help educate consumers about the importance of balancing adequate cover against the price of the insurance.

198 We found that the sales calls for two insurers whose recent advertisements were heavily focused on how much a consumer could save by switching to their insurance centred on ways to achieve a cheaper premium.

199 For one insurer, if a quote was higher than the consumer's existing insurance, many of the sales staff would advise that they would speak with their manager to reduce the quote.

200 This approach reinforced the consumer's objectives of getting a 'better deal' by switching. This is demonstrated by some of the phrases that were used in these telephone calls:

> 'I will see with my boss to see what we can do to make this more attractive.'
>
> 'Don't worry, I am going to do some batting for you.'
>
> 'Your details look pretty good so let me see what I can do—maybe we can save you money on top of that. Just give me a minute—I will check with my manager.'
>
> 'Did a bit of negotiating last time with the manager so don't worry about what this comes to.'

Good practice observations

Insurers' sales scripts could set out better ways for staff to provide information to consumers on:

- the risks of reducing insurance cover, including the risk of underinsurance; and
- the risk of underinsurance when switching insurance. Consumers could be warned at the point of sale that their new insurance may have different or less coverage than their current insurance.

Insurers' training for sales staff could also cover these important topics.

Reactive consumers

201 We reviewed a number of calls where the consumers were reacting to the inclusion of flood cover in their insurance (either as standard cover or on an

opt-out basis) as a perceived reason for an increase in their premium. Most of these consumers had assessed their risk of flood to be low and therefore did not want to pay for a risk they considered remote.

202 Generally, these consumers attempted to do one of three things:

(a) opt out of flood cover (where possible);

(b) switch to another insurer (without flood cover); or

(c) reduce their sum insured and/or increase their excess to reduce their premium.

203 The likely impact of these strategies is a greater exposure to a potential risk (flood) and an increased risk of underinsurance (by reducing their sum insured).

204 When sales staff were better able to explain to a consumer the reasons for the increase in their premium, the consumer was less likely to change their cover or their sum insured.

205 Some good examples of this were when:

(a) sales staff were able to advise consumers that their premium had not increased due to the inclusion of flood, as they had been assessed as living in an area of lower risk for flood and as such the inclusion of flood as standard had not affected the price; and

(b) the reason for the increase was adequately explained to a consumer. For example, when the insurance now covered flood but also included other features as standard (such as accidental damage or a 25% extended sum insured), which consumers either were not aware of or had not understood.

206 Some poorer examples were when sales staff:

(a) did not try to explain the reason for the increase; and

(b) offered to take consumer through underwriting process to see if they could reduce the premium by reducing the sum insured, increasing the excess, or removing additional protections such as flood (if it was opt out).

Good practice observations

Insurers' sales scripts could set out better ways for staff to provide information to consumers:

- that balances the importance of the price of the insurance with the scope of cover; and
- about the reasons why premiums increase (e.g. because flood cover has become a standard inclusion). Sales staff would obviously need to tailor these reasons to the consumer's situation.

Insurers' training for sales staff could also cover this important topic.

Higher risk consumers

207 'Higher risk' consumers were left with fewer choices, as they were unable to find insurance that covered the risks that needed to be covered in a more affordable way. Therefore, most of these calls took the form of consumers trying to reduce their sum insured and/or increase their excess to reduce premiums, which potentially put them at increased risk of underinsurance.

208 There has been an increased focus by government, industry and consumer groups on the issue of affordability for consumers living in areas that are at higher risk of natural disaster.

Telephone scripts

209 As part of our review we requested from insurers copies of their scripts for the sale of home insurance.

210 When reviewing scripts we considered the following questions:

(a) Are the telephone scripts consistent with what happens in actual calls? Are they adequate?

(b) Do they meet the minimum standards of disclosure?

(c) Do they comply with relevant ASIC guidance?

(d) Is there any difference between sales channels (if applicable)?

211 Overall we found that most insurers' telephone scripts were not consistent with the telephone calls we had listened too.

212 We consider one reason for this being that some of the call scripts we reviewed were high level or principles based and lacked sufficient structure and detail.

213 We found that when scripts lacked structure, telephone sales tended to have higher instances of sales staff improvising and providing additional information that was not always correct or was potentially misleading.

214 For example, one telephone call we reviewed gave the consumer potentially misleading information about over-insurance and the use of calculators. It would also appear that this staff member went beyond the insurer's no advice model into the provision of general advice that was potentially misleading rather than helpful to the consumer.

> Insurer: … you don't want to over-insure yourself, because if you over-insure yourself you are just giving more money to an insurance company than what you have to. If you insure for $530,000 but it still only costs $350,000 to rebuild the house, no insurance company is going to pay you a cheque for $530,000—it just means that you have been paying too much

	for your insurance for too long—over-insuring yourself. So if it roughly costs about $300,000 to build your home four years ago, do you really think that would have really increased by $230,000?
Consumer:	No, I don't think …
Insurer:	You are wanting to insure for $530,000—that's a lot. I mean it is half a million dollars to rebuild on a house. Only four years ago it cost $300,000.
Consumer:	We also have other things in the landscape …
Insurer:	You are only covering the structure so you are covering not anything to do with land or gardens or anything like that because that will never lose its value. You only want to insure for—this is where insurance companies differ, but as I was saying with Brand X you only pay the cost that it would cost to re-build the house, not the clean-up fees, not the professional fees, not the architecture fees, not the council fees, just the rebuild. Do you want to do the $530 k or do you want to do the $350 k?
Consumer:	Actually, we also have a solar panel as well.
Insurer:	As I was saying, $530,000, I mean is …
Consumer:	It is too much …
Insurer:	Yeah, it is a lot since we give you extra cover. What happens with Brand X is that whatever you insure for we then give you to 20% on top of that to cover you for any clean-up and professional fees, so that's architecture fees, levelling of land, council fees. So we are giving you extra free of charge for all of those, and we can cover you for up to 10% of the amount insured for temporary accommodation as well. So if you insure $530,000 with us you are looking at up to $700,000 cover, which is almost a million.
Caller:	Okay, no (laughs). Okay, so I will go with … $300,000 should be max for the building itself.
	…
Insurer:	The online calculators, depending on how insurance companies work, a lot of the time they do over-calculate. I mean if the rebuild on the house was only $270,000 three to four years ago, then if we went to $350,000, then that's a $70,000 increase over four years.

215 We also found examples of where sales staff were unsure about how to answer basic questions about the scope of the insurance they were selling and had to repeatedly refer the consumer to the PDS or read verbatim from it in an attempt to answer a query. We found that the sales scripts for these calls did not contain sufficient detail about the scope of the insurance, including guidance about how best to estimate an appropriate sum insured.

216 We found that most scripts focused on statutory disclosure and underwriting questions. This was clearly reflected in sales calls across all insurers and is likely a result of insurers adopting a no advice or factual information model. Feedback from insurers is that they do this to minimise the risk that any

advice provided will trigger regulatory requirements associated with personal advice.

217 We found that insurer's scripts did not set out ways for staff to provide information to consumers on how best to find out about changes to building codes that may affect rebuilding costs.

218 We found that some insurers used verbal warnings in their scripts when a consumer decided to opt out of any standard cover (such as flood). However, we consider that these verbal warnings could be expanded to include the potential consequences of opting out and also the cost, in dollar terms, of keeping the optional cover.

219 One insurer's scripts were largely sales driven, with emphasis placed on cross-selling and problematic sales practices such as using a consumer's statutory cooling-off period as a sales tool (consumers were advised to 'buy now and think about it later'). These sales tactics were evident in the telephone sales we listened to.

220 At least two insurers' scripts failed to mention a consumer's statutory cooling-off period and another insurer's script did not cover a consumer's duty of disclosure.

Good practice observations

Sales scripts could provide better detail and structure about the scope of the home insurance being sold (including guidance about how best to estimate the sum insured), rather than purely focused on statutory disclosure and underwriting questions.

Insurers' sales scripts could set out better ways for staff to provide information to consumers on how best to find out about changes to building codes that may affect rebuilding costs, particularly if the insurer considers that the consumer is located in an area of increased risk for natural perils such as flood, fire or cyclone.

Insurers could include a verbal warning in their sales scripts, should the consumer choose to opt out of any optional cover, such as flood cover. The verbal warning could include whether the consumer is considered to be living in a higher risk location (based on the insurer's risk assessment of the property or area) with the consequences of not being covered for that risk (i.e. no cover in the event of a flood) along with what it would cost, in dollar terms, to include the cover.

Insurers' training for sales staff could also cover these important topics.

No advice or factual information models

221 Most of the telephone calls and scripts we reviewed followed a no advice or factual information model. No advice or factual information models appear at odds with our finding that many consumers want or need some form of

assistance or advice from insurers when inquiring about or purchasing home insurance.

222 REP 416 found that:

> It is clear from the research that some consumers do not know as much about their policy as they should and *would benefit from the best the insurance industry can provide in terms of information, guidance or advice*. Rebuilding costs and the implications for insurance seem to be one area where insurers have information they could share with consumers, perhaps as general guidelines rather than personal advice. Consumers may also benefit from information about the likely risks they face and suggestions that they should consider the longer-term consequences of suffering a shortfall when a building is destroyed.[46]

223 In terms of the training standards required for sales staff to provide general advice over the telephone for home insurance (a Tier 2 product), RG 146 sets out a specific exemption for customer service representatives.

224 This exemption was introduced to provide insurers and other licensees with significant flexibility while maintaining appropriate training standards. However, our review suggests that this exemption is not being widely utilised by insurers for the sale of home insurance. As discussed at paragraph 66, we are considering what, if any, barriers exist to the provision of financial product advice to consumers over the telephone, and whether there is any scope to review these barriers to enhance the ability for insurers to provide advice to consumers purchasing home insurance by telephone.

[46] REP 416, p. 76.

E Online sales

Key points

Important features of the insurance, such as the disclosure of important limits, conditions and exclusions, were generally not highlighted well or at all—this seems to be regarded as the role of the PDS.

All insurers made the PDS available to consumers, although at different stages of the online sale process and in different formats and locations on the website.

Online consumers were provided with better access to tools (e.g. a link to a calculator next to the question about the sum insured) to help estimate their sum insured; however:

- some insurers did not have a calculator or failed to incorporate the calculator into the sales process; and
- insurers could explore how calculators can stay up to date with rebuilding costs, including the effect of updated building codes and any other costs that increase after a natural disaster.

We found that some insurers did highlight important insurance features; however, we consider that it could be more widely implemented and extended to include insurance exclusions, caps and limits.

Insurers were generally better at highlighting whether flood was included or not. We consider that other insured events (such as storms or cyclones) could also be highlighted in a similar manner.

Our review of online sales

225 As part of our review, we reviewed insurers' online sales processes.

226 Our purpose in reviewing the online sales process was to help us better understand:

(a) how home insurance is sold online in practice;

(b) whether there were any differences in the types of information about the insurance a consumer would be able to access, depending on whether they purchased it online or by telephone;

(c) whether there were any differences in premiums and recommended sum insured (through using calculators or calculator-style questions) between insurers, using two hypothetical properties;

(d) whether and, if so, how any important information or insurance features are highlighted to a consumer (apart from in the PDS) during the sales process; and

(e) how mandatory disclosures, such as the provision of the PDS and a policyholder's duty of disclosure are made.

227 Our aim was to understand the information that consumers are currently receiving 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.

228 To help achieve this aim, we considered the following questions when reviewing insurers' online sales processes:

(a) *Disclosure*—How and when is the PDS made available and the duty of disclosure explained or highlighted to a consumer? Does the insurer use links or disclaimers?

(b) *Features and scope of insurance*—Overall, how much detail about the insurance would a consumer understand from completing the online sales process without reading the PDS?

(c) *Calculators*—Does the website have a calculator? Is it difficult to find? How prominent is it? Are consumers encouraged, prompted or required to use it? Is the calculator part of the sales process (through a link or by calculator-style questions)? Is it user friendly?

Online sales screens

229 At a high level, we made similar observations about online sales and telephone sales of home insurance. That is, the sales screens a consumer must move through to receive a quote and purchase insurance from an insurer's website feature underwriting and risk-related questions that help insurers price risk and determine whether or not they are willing to issue the insurance, and at what premium.

230 One important difference between the telephone sales channel and the online sales channel was that online consumers were provided with better access to tools, such as a link to a calculator along with access to the PDS (but not always at the most appropriate and relevant point in the sales process). Most telephone sales (apart from those with calculator-style questions) failed to refer to calculators.

231 We observed that some insurers did not have a calculator or failed to incorporate the calculator into the online sales process. We consider that, at a minimum, the online sales screen could contain a link to a calculator next to the question about sum insured.

232 We found that insurers with calculator-style questions for telephone sales had also incorporated this approach into online sales. For these insurers,

consumers' sales experiences were similar, whether they bought insurance over the telephone or online.

Good practice observations

Insurers could highlight to consumers, at the most relevant point during the online sales process and in a written format appropriate for online sales, all of the information set out in Table 2 for telephone sales calls.

Insurers could include built-in 'calculator-style' questions during the online sales process, to provide consumers with a sum insured range that may assist with reducing levels of underinsurance.

Insurers could have links to home building and home contents calculators at the most relevant part of the online sales screens (i.e. next to the question on how much a consumer would like to insure for).

233 Our detailed findings regarding calculators are discussed in Section F.

Using the online sales screens to improve consumer awareness of insurance features

234 Two key practices we identified that helped consumers better understand the insurance they were purchasing online were:

(a) highlighting key insurance features, including important exclusions, caps and limits, at the most relevant time in the online sales process; and

(b) making a copy of the PDS available to consumers early and often within the sales process, via a link.

235 We found that important features of the insurance, such as the disclosure of important limits, conditions and exclusions, were generally not highlighted well or at all. Again, this seems to be regarded as the role of the PDS, which was made available to the consumer on the insurer's website, although at different stages of the online sale process and in different formats and locations on the website.

236 We did find some examples where pop-up windows or highlighted information were used during the sales process to draw a consumer's attention to important insurance features and provide warnings about the risks of underinsurance. These pop-up windows were strategically placed to be delivered to the consumer at the most relevant point in the sales process. For example, warnings about underinsurance were delivered at the point when a consumer was deciding on the sum insured.

237 We do consider that there is greater scope for insurers to highlight home building insurance exclusions, caps and limits. Most of the highlighted

information we reviewed discussed what was covered rather than what was not covered.

238 We found that some insurers did highlight important insurance features; however, we consider that it could be more widely implemented and extended to include insurance exclusions, caps and limits (similar to how some insurers highlight important caps and limits on home contents insurance).

239 We did see examples where home contents insurance caps and limits were highlighted to consumers during the relevant sales screen. We are aware of caps and limits to home building insurance, such as caps on the most that an insurer will pay for fencing and driveways. We consider these could also be highlighted in a similar way that home contents insurance caps are.

240 Insurers were generally better at highlighting whether flood was included or not. We understand that this is a response to the aftermath of the Queensland floods. We consider that other insured events (such as storms or cyclones) could also be highlighted in a similar manner. For example, many insurers cover storm damage, but in a limited way (e.g. they don't cover damage from a storm surge). Many policies also have different definitions for 'storm'. For instance, some definitions include events such as cyclones, and others do not. We consider that if loss or damage by cyclone is included or excluded, this could be highlighted to a consumer at the point of sale.

241 We found that the stage in the sales process when the PDS was made available to a consumer varied between insurers. Most insurers provided links to the PDS at some point in the first sales screen; however, some insurers did not provide the PDS until the last screen.

242 We found that the format in which the PDS was provided varied, as did the location of the PDS. Most insurers provided a link to the PDS on the online sales screen, while others merely referenced the need to read the PDS in a disclaimer and provided no link, meaning that a consumer would have to locate the PDS on the website (usually located as a PDF attachment on the home insurance homepage).

Good practice observations

Insurers could provide the PDS to consumers:

- using a link within the online sales process that allows consumers to download or be taken to an online version of the PDS; and
- at an early point in the online sales process and potentially more than once during the online sales process.

Insurers could consider making the key facts sheet available as a written summary of the insurance features and exclusions within a sales screen (rather than a link) during the online sales process. This may be possible given the key facts sheet is one page.

F Online calculators

Key points

Most of the insurers reviewed had some form of calculator available, either as a separate calculator and/or within the online quote process.

There were wide variations in the way that different home insurance brands (for some, even within the same insurer group) provided access to online calculators.

Online calculators were relatively user friendly.

We did not identify many calculators that focused on determining bushfire risk and factoring this into the suggested sum insured.

Our review of online calculators

243 To assist our understanding of the calculator-related results from the online sales review and telephone sales review, we conducted a review of the calculators available on the insurers' websites.

244 In conducting this review, our aim was to better understand:

(a) the availability of online calculators;

(b) the ways in which home insurance brands provide access to online calculators; and

(c) the comprehensiveness of online calculators, including the questions asked and information required by each calculator.

245 We also compared the consistency of the calculator results between home insurance brands for home building and contents insurance for two properties, one with a higher risk profile than the other.

246 We hoped to identify opportunities for insurers to adopt practices that improve consumer awareness of, access to and confidence in calculators, as well as explore how calculators can stay up to date with rebuilding costs, including the effect of updated building codes and any other costs that increase after a natural disaster, to reduce the incidence of underinsurance.

Availability of online calculators

247 Many insurers help consumers estimate rebuilding costs and the replacement value of contents by providing them with access to online calculators. The calculators appear as a combination of any of the following:

(a) separate calculator on the insurer's website; and

(b) within the online quote process:

(i) calculator-style questions used to determine an estimate; or

(ii) a link (or pop-up window) to a calculator that may or may not be the same as the calculator that is available separately on the insurer's website.

248 In terms of the availability of calculators on insurers' websites, most of the insurers reviewed had some form of calculator available, either as a separate calculator and/or within the online quote process (as a link or calculator-style questions). On an insurer group level:

(a) for home building insurance, 10 of the 12 insurers reviewed had an online calculator for estimating the cost to rebuild a home; and

(b) for home contents insurance, 11 of the 12 insurers reviewed had an online calculator for estimating the replacement cost for home contents.

249 Despite this, we identified wide variations between different home insurance brands offered by the same insurer.

250 There were wide variations in the way that different home insurance brands (for some, even within the same insurer group) provided access to online calculators. During our review, we found that:

(a) 15 of the 30 home insurance brands reviewed had home building calculators available both separately and incorporated within the online quote process (as either a link or calculator-style questions);

(b) 15 of the 30 home insurance brands reviewed had contents calculators available both separately and incorporated within the online quote process (as either a link or calculator-style questions). These were not necessarily the same home insurance brands that provided home building calculators both separately and incorporated within the online quote process;

(c) within the online sales process, home insurance brands tended to provide a calculator link rather than ask calculator-style questions. The majority of the home insurance brands also offered separate calculators. These preferences are displayed in Figure 2;

(d) some home insurance brands (four for home building calculators and six for home contents calculators) had a separate calculator available on their website, but the online quote process required consumers to nominate a sum insured or replacement value figure without providing a link to the already separately available calculator or asking calculator-style questions to assist the consumer to determine this figure; and

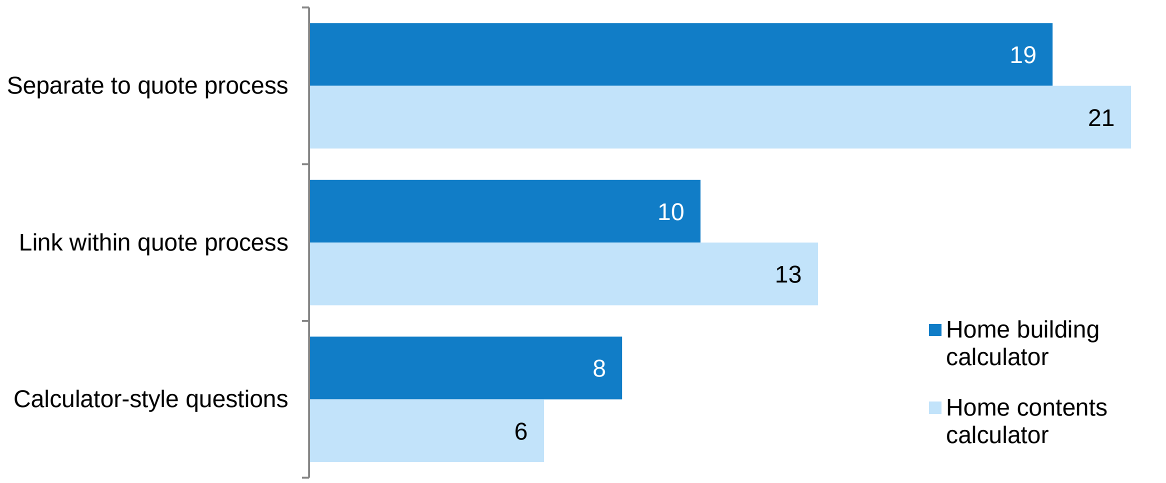
(e) for those with no online calculators:

(i) eight home insurance brands did not have any form of a building calculator available (either separately or within the online quote process);

(ii) five home insurance brands did not have any form of a contents calculator; and

(iii) five of the 30 home insurance brands (approximately 17%) did not have any calculators (home building or home contents). That is, these 17% did not have their own separate calculators and also did not have any calculators built into the online quote (requiring the consumer to select a sum insured without the assistance of a calculator) for home building and/or home contents.

Figure 2: Types of calculators available from home insurance brands



Note: This figure is based on a sample of 77 calculators for 30 home insurance brands.

251 During the period 22 August to 27 August 2014, we also found that calculators that were available separately to the online quote process (whether home building or home contents calculators) were not prominently promoted. For example, we identified that:

(a) only two of the 21 home insurance brands had a direct link to the calculators on their brand's homepage. One of these two home insurance brands had a direct link towards the bottom of the homepage;

(b) for one of the 21 home insurance brands, use of the website's search function was required to locate the calculator;

(c) the majority (16 of the 21 home insurance brands) had direct links to the calculators on their home insurance page, although with different levels of prominence on these pages (top, side or bottom of the pages); and

(d) four of the 21 home insurance brands had direct links to the calculators located on their tools and tips pages.

Good practice observations

Insurers could include direct links to the calculators on the brand's homepage of their websites or on the home insurance page towards the top of the page.

For online calculators, separate calculators could be made available in addition to being available or incorporated within the online quote process as calculator-style questions.

Comprehensiveness of calculators

252 The comprehensiveness of home building and home contents calculators varied between home insurance brands, but for the most part they can be grouped into four main types:

(a) express home building calculator;

(b) comprehensive home building calculator;

(c) express home contents calculator; and

(d) comprehensive home contents calculator.

253 Although some of the calculators were detailed, overall we found that the online calculators were relatively user friendly with drop-down menus and tick-a-box questions, and irrelevant questions were filtered out based on the consumer's answers.

254 An overview of the most common type of questions asked by each type of calculator relevant to the calculation of the cost to replace a home building and/or home contents is set out in Table 6 in Appendix 3.

255 We did not identify many calculators that focused on determining bushfire risk and factoring this into the suggested sum insured. While almost all calculators did ask about the slope of the land, only one brand asked an additional question about whether the property is within 50 metres of bushland.

256 Insurers could explore how calculators can stay up to date with rebuilding costs, including the effect of updated building codes and any other costs that increase after a natural disaster.

257 Although there were some variations between the type of questions asked by each brand, we found that:

(a) for home buildings:

(i) home insurance brands that offered calculator-style questions all asked questions that were less comprehensive than the separately available calculators. Presumably this is designed to speed up the online quote process. Only half of these home insurance brands acknowledged this and offered a link at the end of the quote to a more comprehensive calculator for greater accuracy; and

(ii) home insurance brands that offered links linked to the same comprehensive version of the calculators that was separately available on the website; and

(b) for home contents, a few of the home insurance brands had less comprehensive questions in their online quote process (whether as a link or as calculator-style questions) than the separately available calculator.

Good practice observations

Insurers could aim for consistency between the versions of the separate calculators available on their websites or otherwise let consumers know about the existence of a more detailed version of the calculator from which the consumer might obtain a more accurate quote.

Insurers could ensure the ongoing accuracy of their calculators through regular reviews. Insurers could explore how calculators can stay up to date with rebuilding costs, including the effect of updated building codes and any other costs that increase after a natural disaster, which may assist with reducing levels of underinsurance.

Consistency of calculator results

258 As part of the review, we tested the insurers' calculators using two different scenarios. We selected two vacant properties in New South Wales, one in an area with a history of bushfires (Property 1) and another in a lower risk area (Property 2). We used the insurers' online calculators (where available) to select a home building sum insured for Property 1 (Scenario 1) and Property 2 (Scenario 2).

259 In addition to the property address, we applied a consistent set of features to each scenario.[47] The factors applied to each scenario are set out in Table 4 in Appendix 1.

260 Figure 3 sets out the comparison of the home building sum insured figures obtained for each scenario using a range of home insurance brands' calculators available from the online quote process and, where not available through the online quote, then the most comprehensive calculator that was separately available.

[47] We note, however, that some calculators may ask questions in a slightly different way or ask questions that may not be covered by the features in Appendix 1 and Appendix 2. We have attempted to maintain the consistent set of features wherever possible.

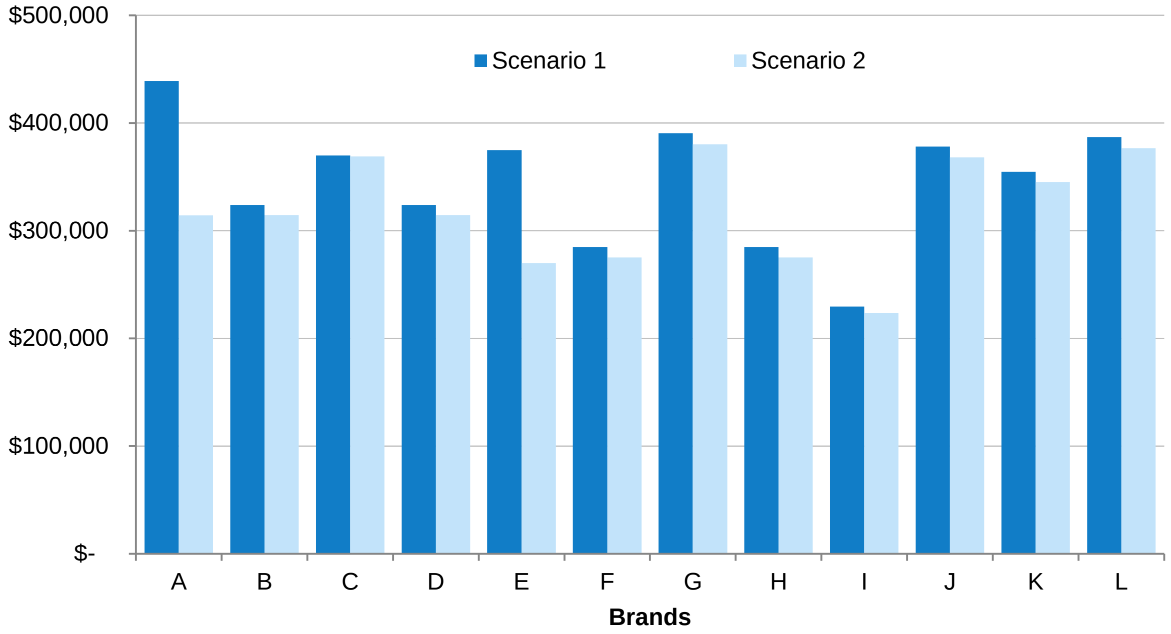
261 Despite the variations in the calculated home building sum insured figures across the home insurance brands, we identified that:

(a) Brand I, a recent entrant to the industry, had the lowest sum insured for both Scenario 1 and Scenario 2;

(b) as expected, the sum insured figures for Scenario 1 (the bushfire-prone property) were all higher than the sum insured figures for Scenario 2 (the lower risk property); and

(c) the calculated sum insured figures varied for different insurer groups. Some home insurance brands within the same insurer group also differed in their estimates.

Figure 3: Comparison of home building sum insured for both properties (Scenarios 1 and 2)

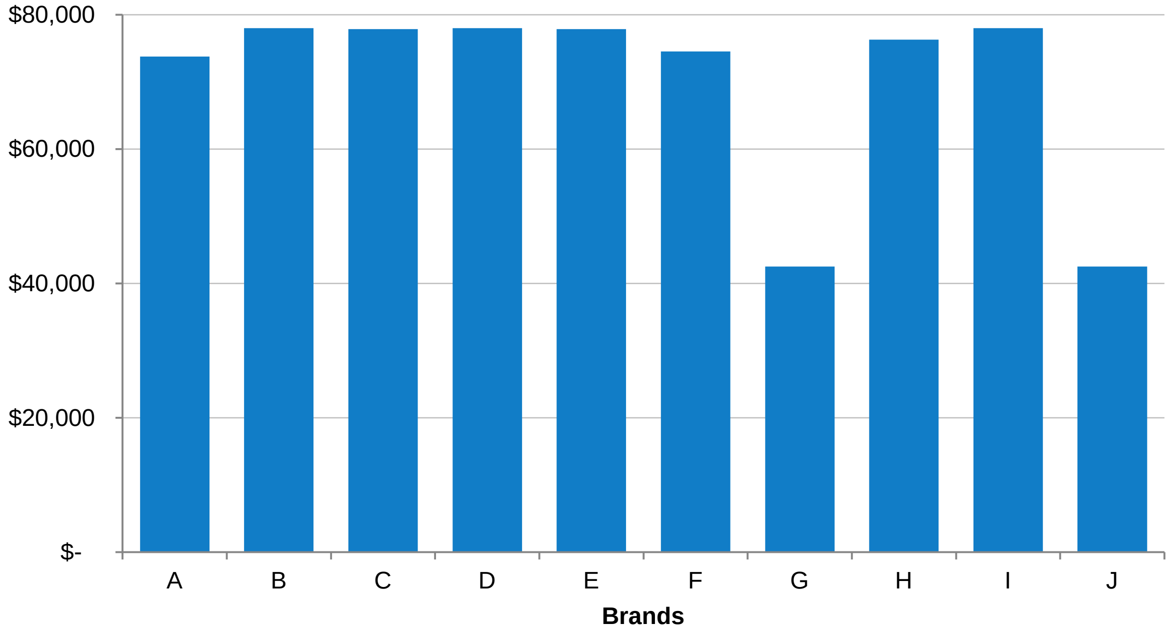


Note: This figure is based on a sample of 12 calculators for 12 home insurance brands.

262 In a third scenario, we calculated the contents sum insured for Property 1 (Scenario 3).

263 Although calculated with two fewer insurers, the results in Figure 4 show that the home contents sum insured (Scenario 3) similarly showed a variation in the sum insured figures for each insurer and, in some cases, even for home insurance brands within the same insurer group.

Figure 4: Home contents sum insured (Scenario 3)



Note: This figure is based on a sample of 10 calculators for 10 home insurance brands.

G Advertising and promotional materials

Key points

Some insurers focus their advertising on price—that is, the headline claim focused on how much a consumer could save by switching to that particular insurer. Very little, or nothing, was disclosed about insurance features other than price.

Consumer research commissioned by ASIC indicated that consumers who selected their insurer based purely on price tended to know the least about insurance features.

Advertisements should give balanced information so that consumers can understand the nature of the product or service being advertised. Balance is important for ensuring that the overall effect of an advertisement creates realistic expectations about a product.

Some insurers used advertising to alert consumers to important issues, such as calling to make a claim for loss or damage related to a disaster event or reminding consumers about the importance of reviewing their sum insured.

Our review of advertising and promotional materials

264 During the review period we used an external monitoring service to review the insurers' television and radio advertising.

265 We also requested each insurer provide us with advertising and promotional materials, including:

(a) copies of all advertisements and promotional materials for television, radio, online, social media, and print (direct mail, brochures, newspapers, magazines, billboards, White Pages and Yellow Pages); and

(b) generic 'brand' advertising, including banner and billboard advertising.

266 Our purpose for reviewing advertising was to:

(a) understand the types of messages and information consumers receive about home insurance from marketing and promotional materials; and

(b) ensure that home insurance marketing and advertising did not breach requirements in relation to misleading conduct and/or false or misleading representations and met ASIC's regulatory guidance.

Messages in advertising and promotional material

267 Generally, the types of messages and information consumers receive about home insurance fell within three broad categories:

(a) *Price-focused advertising*—Advertising that highlights how much a consumer could save (in dollar terms or as a percentage discount) by switching to a particular brand. This included advertising that promotes 'discounts' or 'special promotions' a consumer could obtain by switching to or purchasing new insurance from that insurer. Discounts tended to range between 10% and 35% for new customers purchasing combined insurance online. These discounts or special promotions only apply to the first year's premiums and are generally used to entice new consumers.

(b) *Brand advertising*—Brand-focused advertising that draws attention to the fact that a particular insurer sells home insurance without highlighting specific features of the insurance.

(c) *Key feature advertising*—Advertising focused on a key feature, such as temporary accommodation or accidental damage cover that is sold as being unique to the insurer and a reason for purchasing their insurance.

268 We observed that some smaller insurers advertise far more heavily than other larger insurers. These insurers were newer entrants and would appear to be marketing their insurance fairly strongly to increase market share. We also observed that these insurers tended to focus their advertising on price—that is, the headline claim focused on how much a consumer could save by switching to that particular insurer. Very little, or nothing, was disclosed about insurance features other than price.

269 REP 416 highlights the important role that advertising plays in influencing consumer behaviour. Not all inquiries were prompted by the renewal notice; some consumers were motivated by advertising. For example, one of the consumers interviewed in the qualitative stage said:

> What prompted me was the massive promotion of BRAND, … it was just everywhere, it was on TV, every time … so I actually went to them first and thought I had better check around, not just look at one, but it was that massive promotion that got me going really.[48]

270 An online survey of home insurance consumers, undertaken as part of the consumer research for REP 416, also identified advertising as a key driver. Consumers who had taken out their first insurance, switched insurance or considered doing so were asked what prompted them to read the PDS, look at the insurance features or get quotes from other insurers.

[48] REP 416, p. 39.

271 In all, 11% of these consumers had initiated their search because of advertisements.[49]

272 We also observed that some insurers' advertising referred to 'discounts' or 'special promotions' a consumer could obtain by switching or purchasing new insurance with a particular insurer.

273 Discounts started at 10%, but could be as much as 35% for new customers purchasing combined home building and contents insurance online. These discounts or special promotions only apply to the first year's premiums and are generally used to entice new consumers to switch to or purchase new insurance from that particular insurer.

274 We consider that advertising that focuses solely on discounts or a special promotion focuses consumers' attention of the price of the insurance rather than a more balanced view of price weighted against the features of the insurance.

275 We consider that price-focused advertising, which may include special discounts or promotions, may compound the problem that consumers seeking out home insurance based solely on price tend to know less about the features of home insurance and may not purchase home insurance that meets their needs. RG 234 contains good practice guidance to help promoters comply with their legal obligations to not make false or misleading statements or engage in misleading or deceptive conduct.

276 RG 234.31 considers that:

> Advertisements should give balanced information so that consumers can understand the nature of the product or service being advertised. Balance is important for ensuring that the overall effect of an advertisement creates realistic expectations about a product.

277 We also observed positive examples where some insurers had used advertising to alert consumers to important issues, such as calling to make a claim for loss or damage related to a disaster event or reminding consumers about the importance of reviewing their sum insured.

278 We consider the use of advertising to alert consumers to these important issues is a positive way in which insurers can use advertising to reach their consumers to inform them of important information that may better protect their interests.

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[49] Note that the 11% figure should not be taken as a measure of the actual proportion *exposed* to advertising. REP 416, Table 17, p. 86.

279 We saw a number of advertisements where a key feature of the insurance was highlighted. For example, temporary accommodation cover, accidental damage cover and cover for theft.

280 We compared advertised key features against the PDS, to make sure that the advertisement was consistent with the PDS.

281 We found two instances where it was possible that the insurance feature did not operate in the manner in which it was promoted in the advertisement. We considered that this may be potentially misleading to consumers. In one case, the insurer agreed that the advertisement would not be shown again in its current form and changes would be made to disclaimers for any further advertising.

282 Overall we considered that the advertising and promotional materials of most insurers met minimum standards of regulation. We are however, continuing our surveillance of two insurers' advertisements in the context of this review.

Good practice observations

Advertising could be more balanced by, for example, avoiding a sole focus on price, discounts or special promotions and incorporating information about the scope of the cover being offered.

Key features of home insurance that are promoted to consumers as offering a particular benefit or operating in a particular manner should be consistent with the terms of the PDS, including any exclusions, caps or limits that may apply.

Insurers could use advertising to alert consumers to important issues, such as calling to make a claim for loss or damage related to a disaster event or reminding consumers about the importance of reviewing their sum insured.

H Staff training and monitoring

Key points

All insurers had guidelines and procedures in place for training and monitoring staff.

The training delivered by some insurers:

- was limited to the induction of new staff, and was not provided on an ongoing basis;
- was standardised across all home insurance brands;
- varied in length from one insurer to the next; and
- lacked detail around the insurance itself and the PDS.

Some insurers operating under a no advice model still provided training to staff that included a majority, if not all, of the training requirements outlined in RG 146 for staff who advise on general insurance products.

Monitoring activities of most insurers failed to set out what measures or next steps were to be taken after identifying an issue or breach.

Our review of staff training and monitoring

283 As part of our review, we requested from insurers copies of training and development guidelines, along with a description of monitoring and supervisory activities for each applicable distribution channel.

Training programs

284 The Corporations Act requires AFS licensees and their representatives to maintain competence and be adequately trained.[50]

285 Under RG 146, licensees must provide the level of training outlined in Table A2.6a and Table A2.6b to staff who are providing advice on general insurance products.

286 Based on the information provided by the insurers, we observed that, where staff members were required or allowed to provide general or personal advice about general insurance products, all insurers appeared to meet the regulatory requirements.

[50] Corporations Act, s912A(1)(e) and (f).

287 We observed that all insurers had guidelines and procedures in place for training and monitoring staff, yet the training delivered by some insurers appeared to be more limited than others:

(a) For most of the insurers, the training was limited to the induction of new staff, and was not provided on an ongoing basis.

In one case where the insurer did provide specific ongoing or 'refresher' training, the ongoing courses were focused on sales techniques.

(b) For some insurers the training program was standardised across all home insurance brands.

We observed that one insurer issued the same generic training guides to multiple home insurance brands, providing general guidance as to what needed to be covered in the training, but left it to the facilitator to 'fill in the blanks' and tailor the training to the specific brand. In this case the home insurance brands were not all offering the same, or similar, insurance.

(c) The length of the training programs varied considerably from one insurer to the next.

While the induction training course for one insurer was only five days, others went for three to four weeks.

One insurer even provided a training course for the Certificate III in Financial Services to all sales staff, conducted through the insurer's in-house training program.

(d) Some training programs lacked detail around the insurance itself and the PDS.

For example, one insurer provided brief product training and included minimal reference to the PDS, with a stronger focus on making sales and guiding staff to the insurer's 'help system' in order to teach themselves on the job.

The sales calls for this insurer demonstrated a lack of knowledge of the insurance and PDS.

(e) Most of the training programs included some level of regulation or compliance training, yet this module was provided in a theoretical way (i.e. context was not provided regarding the way compliance could be incorporated into the sales process).

In one case the guidance provided in the compliance training (which promoted a no advice model) appeared to contradict the sales training, which encouraged staff to identify the consumers' requirements and offer them insurance with the appropriate benefits.

We consider that it would be difficult for sales staff to 'identify consumers' requirements' and stay within the confines of a no advice or factual information model.

Inconsistency between advice models, training, scripts, and telephone sales

288 RG 146.22 provides an exemption under which customer service representatives (i.e. call centre or front desk staff who deal with initial queries from consumers) may provide financial product advice to consumers in the course of their work but are not required to meet the training standards as long as the only financial product advice they provide is either:

(a) derived from a script approved by a person who meets the training standards; or

(b) made under the direct supervision of a person who meets the training standards.

289 We observed that some insurers operating under a no advice model still provided training to staff that included a majority, if not all, of the training requirements outlined in RG 146 for staff who advise on general insurance products.

290 It was observed that in cases where this level of training was provided (even though strictly not required), sales staff were better able to provide consumers with more robust and relevant factual information about their insurance.

291 We observed that sales staff that were trained to this level were also better able to:

(a) answer questions about the scope of the insurance (answers were based on the PDS but delivered in a manner and with a level of detail to make it easier for the consumer to understand);

(b) and provide examples to consumers in order to contextualise the information provided.

292 While some of the training materials provided by the insurers demonstrated a comprehensive process for inducting staff, most of what staff learnt in these sessions was not evident in the scripts or telephone sales we reviewed.

293 For example, some insurers provided staff with training and development modules on the risks of underinsurance, the benefits of calculators and training on specific insurance features (including exemptions, caps and limits). However, most of this knowledge appeared not to be used in practice, as sales scripts rarely incorporate it and most of the telephone sales calls we listened to failed to refer to it even after consumers specifically asked a question or needed assistance. For those insurers operating on a general advice model, it was rare for the sales staff to actually provide any general advice. This was reflected in the sales scripts, which did not provide scripting to allow for general advice to be given.

294 In some cases training courses provided by insurers exceeded basic regulatory requirements. In these instances, sales staff appeared to have a better general understanding of the insurance being offered along with the content of the PDS. We consider that combining this training and knowledge with quality scripted general advice (as recommended in RG 146.23) would assist sales staff to help consumers to better understand the insurance they are purchasing, including estimating a more appropriate sum insured (where applicable).

295 We did observe that sales staff of one insurer, which provided underinsurance training, were found to regularly discuss underinsurance with consumers during sales calls. We note that this insurer offered a total replacement policy rather than a sum insured policy; therefore, providing information about underinsurance assisted in educating consumers as to the benefits of a total replacement policy.

Methods of training and delivery

296 Overall, methods of training used by the insurers were appropriate and a variety of delivery methods (e.g. classroom, interactive case studies, e-learning) were used to encourage staff engagement and promote practical learning.

297 Most of the insurers provided relevant theory, and then used case studies to encourage the staff to apply the theory to hypothetical situations that included a variety of consumers with different needs. In these cases staff were encouraged to refer to the PDS in order to familiarise themselves with the limitations and benefits of the insurance and how these would be more or less relevant for different consumers.

298 Most of the insurers incorporated a quiz or test for each module of training and/or on completion of the whole training course. Sales staff had to achieve a certain score before they could begin selling insurance.

Good practice observations

The content of training modules could incorporate the good practice observations for telephone sales calls and scripts (Section D), online sales (Section E) and online calculators (Section F).

Training and development could be provided to sales staff on an ongoing basis and updated regularly to incorporate important compliance and/or product changes.

Training and development could be less generic and more tailored to individual insurance products and features. This is especially relevant for insurers with multiple home insurance brands.

> Training and development programs need to balance course content against delivery times. Shorter training programs may not be covering enough or may be rushing through the content of training too quickly.
>
> The content of training and development programs could be better incorporated into telephone sales scripts and evidenced in telephone sales calls.
>
> Training programs that go beyond no advice models tend to mean that sales staff are better able to provide consumers with more useful and relevant factual information about their insurance.

Monitoring activities

299 Under RG 146.24, for the purposes of RG 146.22(b), a supervisor who meets the training standards must be present on site to monitor and supervise the customer service representatives.

300 Under RG 146.25, the licensee must have compliance measures in place designed to ensure that customer service representatives who do not meet the training standards operate only within the limits set out in RG 146.22.

301 These measures must include an effective means of monitoring what customer service representatives say to retail clients when following the requirements set out in RG 146.22.

302 Further, while customer service representatives do not have to comply with the training standards, licensees must ensure that their customer service representatives have the necessary competencies to perform their functions: see s912A(1)(f).

303 We found that the monitoring activities of most insurers failed to set out what measures or next steps were taken after identifying an issue or breach.

304 Most of the insurers had a process for reporting the breaches, but no clear process regarding what action was taken beyond reporting. In addition to this, the frequency of reporting issues varied. Some insurers reported on a weekly basis, while others only reported on a monthly basis.

305 That said, we noted a variety of monitoring practices amongst the insurers as being good practice:

(a) One insurer conducted frequent audits on sales staff, providing immediate feedback to the staff member regarding any issues with their performance, while more serious concerns (e.g. possible systemic or risk issues) were then escalated for consideration by management.

(b) One insurer demonstrated a clear cycle of training and monitoring, whereby the monitoring process was not only used to check compliance with regulatory standards and internal processes, but also used as an opportunity to identify training needs. Any issues identified would result in the implementation of a coaching plan and notification to executive staff.

(c) One insurer indicated that non-compliance identified through monitoring was linked directly to whether employee rewards were paid (e.g. bonus).

306 We observed that the insurers focused mostly on one type of active monitoring, the review of a random selection of telephone sales calls.

307 Only one insurer gave an indication of how the 'random' selection was made, which included a weighting system based on various factors (e.g. full-time or part-time workers, sales work versus service work, consideration of complaints received, recent breach reports).

308 Branch sales and online sales received less monitoring activity overall. Only one insurer demonstrated a thorough process for monitoring branch sales and the same insurer confirmed that online sales were purposely restrictive (only 1% of insurance sales were online). The underwriting standards used online were restricted to a basic model so that any consumer who did not fit within that insurance model would be redirected through the telephone sales process to determine the most appropriate insurance.

309 Monitoring documents provided by the insurers (e.g. sales call audit sheets) mainly focused on internal policies and procedures not related to regulatory compliance.

310 Where this occurred, we observed that even if a staff member failed to meet regulatory standards, if they were complying with the insurer's other internal policies they might still gain a pass mark in the audit. One insurer identified a way to counteract this issue, by having an audit pass mark but also including an 'automatic fail' where regulatory compliance was not observed.

311 One insurer did not appear to do any active monitoring of staff conduct (e.g. monitoring sales calls).

Good practice observations

Monitoring could be more robust and include different types of monitoring activities.

Monitoring could occur on a more regular and frequent basis, such as weekly, to ensure that once issues are identified they are appropriately remedied in a timely manner (e.g. before they lead to consumer complaints, breaches or insurance cancellations).

Monitoring could have clearer 'next steps' once a monitoring activity identifies a breach. For example, a clear process regarding what action was taken beyond monitoring and reporting.

Appendix 1: Features of home building used in Scenarios 1 and 2

Table 4: Home building features in Scenarios 1 and 2

Home building features	Value
Date of birth of eldest policyholder	1/01/1970
Occupancy	Owner–occupier
Type of dwelling	Freestanding
Material the external walls are made from	Double brick
Slope of land	Gentle slope
Material the property is built on	Concrete slab (not elevated)
Levels/storeys of the building	One
Number of bedrooms	Three
Number of studies/home offices	One
Type of roof	Concrete tiled
When the building was constructed	1980-89 construction (contemporary)
Outbuildings and other features	One garage (single) One garden shed (small) Unmonitored smoke alarms No air-conditioning
Construction standard	Average quality/construction
Area of the building	150 metres squared
Security	Padlocks on all external hinged doors (no back to base alarms, swipe cards, monitored smoke alarms, deadlocks on windows)
Does the policyholder have any previous criminal history or negative claims history (i.e. denied claim, cancelled insurance)	No, one accepted claim in last five years
Excess	$1000
Reason for inquiring	Switching from one particular insurer

Appendix 2: Features for home contents used in Scenario 3

Table 5: Home contents features in Scenario 3

Home contents features	Value
Bedroom 1	One female and one male both over 20
Bedroom 2	Teen female
Bedroom 3	Teen male
Number of bathrooms	One
Number of kitchens	One
Number of laundries	One
Number of dining rooms	One
Number of living/lounge rooms	One
Quality and standard of contents	Average
Special item (watch)	$3,000
Special item (ring)	$3,000

Appendix 3: Types of questions and information asked by each type of calculator

Table 6: Questions asked by express and comprehensive home building and home contents calculators

Type of calculator	Express	Comprehensive
Home building calculator	Postcode Period of construction Construction standard Slope of land Material the property is built on Material the external walls are made from Material the roof is made from When the building was constructed Levels/storeys of the building Area of the building Number of bedrooms Size of the main bedroom (small, average, large) Number of bathrooms Number of covered car spaces Outbuildings and other features: • ducted air-con/heating; • balcony/deck/verandah; • granny flat; • swimming pool; • shed; • tennis court; and • water tanks.	In addition to the express building calculator questions: Ceiling height Ceiling type (flat or vaulted) Number and size of kitchens Number and size of laundry Size of other rooms (entry, foyer, living/lounge room, family room, rumpus room, study, sunroom, billiard room, home theatre, open-plan room, any other rooms) Other buildings and features: • breezeways/walkways; • number and size of garages; • number and size of carports; • fireplaces; • garage door opener; • intercom system; • video door answering system; • linen closet; • wardrobes (built in); • wardrobes (walk in); • sauna; • spa bath; • security system; • skylight; • solar electricity generating system; • solar hot water system; and • vacuum system (central);

Type of calculator	Express	Comprehensive
Home contents calculator	Postcode Calculates the replacement value estimate based on: • the different types of rooms in the home and the estimated value of contents in each room. The total of all the contents value in these rooms is the cost to replace the contents; • the number of children or adults in each type of room in the home; or • the number of each type of room in the home and the average contents standard in the home generally.	In addition to the express calculator questions: Number of bedrooms Number of each of the following type of occupants in each bedroom (e.g. adult female 20 years or older, adult male 20 years or older, teen female 13–19 years, teen male 13–19 years, child 4–12 years and baby 0–3 years) Degree to which home contents are furnished Standard of the home contents Number of other rooms in the home: • bathroom; • ensuite; • separate toilet; • kitchen; • laundry; • entry/foyer; • dining; • living/lounge room; • family room; • games/rumpus room; • media room or home theatre; • sunroom/conservatory; • study/home office; • billiards room; • garage/storage/workshop; • garden shed; • patio/balcony/deck/verandah; • pool area (not including pool). Add any special items and list value of those items (e.g. jewellery and watches, set and unset stones, gold and silver objects, pictures, paintings or other works of art, rare rugs and unique carpets, stamp or coin collections and other collectables, any other special items)

Key terms

Term	Meaning in this document
accidental damage cover	An add-on cover for unintentional events that can cause damage to a home building or its contents
add-on cover	Optional insurance that can be added to a core package of covers under an insurance policy. For home insurance, this could be accidental damage cover or portable valuables cover
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries out a financial services business to provide financial services Note: This is a definition contained in s761A of the Corporations Act.
AFS licensee	A person who holds an Australian financial services licence under s913B of the Corporations Act Note: This is a definition contained in s761A of the Corporations Act.
APRA	Australian Prudential Regulation Authority
ASIC Act	*Australian Securities and Investments Act 2001*
[CO 11/842] (for example)	An ASIC class order (in this example numbered 11/842)
Corporations Act	*Corporations Act 2001*, including any regulations made for the purposes of that Act
face-to-face distribution channel	The purchase of or inquiry about home insurance through branches (such as insurer or bank branches), insurance brokers and financial advisers
GI Code	General Insurance Code of Conduct 2014
home building insurance	Insurance that covers (whether or not the insurance is limited or restricted in any way) destruction of or damage to a home building, when the policyholder or one of the policyholders is a natural person
home contents insurance	Insurance that covers loss of or damage to the contents of a residential building, when the policyholder or one of the policyholders is a natural person
home insurance	Insurance that covers (whether or not the insurance is limited or restricted in any way) destruction of or damage to a home building, when the policyholder or one of the policyholders is a natural person. This includes combined home building and contents insurance, but excludes standalone home contents insurance

Term	Meaning in this document
home insurance brand	A name given to an insurer's product. This name may be a business name or a separate legal entity that is licensed to distribute the product on behalf of the insurer. One insurer can have multiple home insurance brands, through which they sell insurance
ICA	Insurance Council of Australia
Insurance Contracts Act	*Insurance Contracts Act 1984*
Insurance Contracts Regulations	Insurance Contracts Regulations 1985
insurer	The insurance company that issues the insurance policy
key facts sheet	A one page document summarising key information about a home building and/or home contents policy
no advice model	A model where staff do not provide any form of advice (only factual information) to consumers about their insurance policy
PDS	Product Disclosure Statement
portable valuables cover	An add-on cover to insure personal items when those items are away from the home
Product Disclosure Statement	A document that must be given to a retail client in relation to the offer or issue of a financial product in accordance with Div 2 of Pt 7.9 of the Corporations Act Note: See s761A for the exact definition.
REP 416 (for example)	An ASIC report (in this example numbered 416)
review period	1 March to 31 August 2013
RG 146 (for example)	An ASIC regulatory guide (in this example numbered 146)
s912A(1)(f) (for example)	A section of the Corporations Act, unless otherwise specified
standard cover	Insurance with terms consistent with those prescribed in the Insurance Contracts Act and Insurance Contracts Regulations
sum insured policy	In this type of insurance, the insurer agrees to pay only up to an agreed amount (the sum insured), nominated by the consumer, to repair or rebuild the damaged or destroyed home
Tier 1 products	All financial products except those listed under Tier 2

Term	Meaning in this document
Tier 2 products	General insurance products, except for personal sickness and accident (as defined in reg 7.1.14); consumer credit insurance (as defined in reg 7.1.15); basic deposit products; non-cash payment products; FHSA deposit accounts
total replacement policy	In this type of insurance, the insurer agrees to repair or rebuild the home to the same size and standard as the current home on a ‘new for old’ basis, rather than paying up to an agreed amount

Related information

Headnotes

advertising and promotional material, home building insurance, home contents insurance, home insurance, home insurance brands, insurers, no advice model, online calculators, online sales, staff training and monitoring, sum insured, telephone sales, underinsurance

Class orders

[CO 11/842] *PDS requirements where a quote for a general insurance product is given*

Regulatory guides

RG 36 *Licensing: Financial product advice and dealing*

RG 146 *Licensing: Training of financial product advisers*

RG 168 *Disclosure: Product Disclosure Statements (and other disclosure obligations)*

RG 175 *Licensing: Financial product advisers—Conduct and disclosure*

RG 234 *Advertising financial products and services (including credit): Good practice guidance*

RG 244 *Giving information, general advice and scaled advice*

Legislation

ASIC Act

Corporations Act, Ch 7, Pt 7.7, 7.9, Div 2, s761G, 912A(1)(e), 912A(1)(f), 1330; Corporations Regulations 2001, regs 7.1.12, 7.1.13

Insurance Contracts Act, s11F, 14A, 55A; Insurance Contracts Regulations; Insurance Contracts Amendment Regulation 2012 (No. 2)

Reports

REP 54 *Getting home insurance right: ASIC's report on home building underinsurance*

REP 89 *Making home insurance better*

REP 416 *Insuring your home: Consumers' experiences buying home insurance*

Natural Disaster Insurance Review, *Inquiry into flood insurance and related matters*, September 2011

Productivity Commission, *Natural disaster funding arrangements*, 25 September 2014

Other documents

ASIC, *Financial System Inquiry: Submission by the Australian Securities and Investments Commission*, April 2014

Caxton Legal Centre, *Standing Committee on Social Policy and Legal Affairs: Inquiry into the operation of the insurance industry during disaster events* (Submission No. 53), 12 September 2011.

ICA, *General Insurance Code of Conduct*, 2014

Treasury, *Key facts sheet: Home building and home contents insurance policies*, 29 February 2012

Treasury, *One page key facts sheets for home building and home contents insurance policies*, 10 August 2012