

Tuesday December 1, 2015

Clearer, simpler, more effective: Insurers look to reform product disclosure process for consumers

Technological advances and thorough consumer testing should underpin product disclosure reforms in the general insurance industry to better meet the needs of customers.

The Insurance Council of Australia's (ICA) Effective Disclosure Taskforce has presented its recommendations to the Council's Board on ways to better align the provision of policy information with customers' needs.

The Taskforce, chaired by leading insurance lawyer Michael Gill, was established in July in response to long-standing industry concerns about the effectiveness of mandated disclosure. The Taskforce comprised both industry leaders and non-industry experts.

ICA CEO Rob Whelan said insurers recognised the mandated requirements were falling short of their primary purpose: helping consumers buy insurance that meets their needs.

"Product disclosure statements (PDS) have become so focused on complying with financial regulations and limiting an insurer's liability that their value to customers has been greatly diminished," Mr Whelan said.

"The Taskforce found PDS documents are generally regarded as too long and complex, leading many consumers to simply skim them and then file them away until they need to make a claim.

"If consumers don't understand the policies they're buying, it can result in major financial losses, angry customers and possible reputational damage for the insurer – everyone loses."

In its report 'Too Long; Didn't Read', the Taskforce made 16 recommendations including:

- Integrating insurance calculators into the sales process, especially for home insurance, and trying to achieve a common basis for them across the industry. This is designed to combat substantial levels of underinsurance in the community
- Exploring new forms of electronic disclosure that are more engaging and can better target the information most applicable to individual customers
- Encouraging government to create a central portal for the release of natural hazard data to help consumers determine their insurance needs and take steps to mitigate their level of risk

Mr Whelan said the Board accepted all the Taskforce's recommendations and the ICA would initiate an action plan to begin implementing what will inevitably be a long-term process.

He said one of the first steps was conducting consumer research to more precisely identify the best ways to overhaul product disclosure.

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“The lack of empirical evidence about how PDS documents influence customers’ decision-making was identified by the Taskforce as a barrier to improvement,” he said.

“A substantial consumer research program will ensure the industry avoids spending time and money implementing product disclosure innovations that are ineffective or even detrimental to consumers.

“The ICA would also like to see the Australian Securities and Investments Commission (ASIC) rethink its guidance on the ability of insurers to give advice over the telephone to customers.

“Fear of straying from the mandated general advice into the realm of personal advice means staff are often more focused on regulatory compliance than delivering the information that’s of most use to customers.

“Within its 63-page report, the Taskforce referred to the 2013 New South Wales Blue Mountains bushfires as an example of the sort of financial devastation that can be left behind when people lack sufficient insurance cover.

“Clearer, simpler, more effective product disclosure that closes the knowledge gap between insurers and their customers is a vital part of the solution.”

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Editor’s Note:

Too Long; Didn’t Read - Report of the Effective Disclosure Taskforce to the Insurance Council Board: <http://www.insurancecouncil.com.au/issue-submissions/reports/too-long-didnt-read-enhancing-general-insurance-disclosure>