



Mr Robert Cornall
C/ - Code Review Secretariat
General Insurance Code of Practice Review
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Insurance Australia Limited

ABN 11 000 016 722
AFS Licence No. 227681
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388 George Street
Sydney NSW 2000 Australia
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1 July 2009

Dear Mr Cornall,

Re: Review of the General Insurance Code of Practice

Insurance Australia Limited (IAL) distributes insurance under many leading brands, including: NRMA Insurance, SGIO and SGIC. IAL welcomes the opportunity to provide a submission to the Independent Reviewer on the review of the General Insurance Code of Practice (the Code). IAL supports a Code that facilitates open, fair and honest dealings with customers.

IAL has a crucial interest in the long-term sustainability of insurance as a product that is valued by the community and looks forward to ongoing discussion and the outcomes of this review.

Please refer to IAL's submission for a detailed response to the General Insurance Code of Practice Terms of Reference.

If you require any further information, do not hesitate to contact me on (02) 9292 9744.

Yours sincerely,

A handwritten signature in blue ink that reads 'Nola Watson'.

Nola Watson
Head of Chief Executive Office
NRMA Insurance, SGIO & SGIC



Insurance Australia Limited

Submission to the

Review of the General Insurance
Code of Practice

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1. Executive Summary

Insurance Australia Limited (IAL) supports the current General Insurance Code of Practice (the Code) as a self regulating framework in:

- Promoting better, more informed relations between insurers and their customers;
- Improving consumer confidence in the general insurance industry;
- Providing better mechanisms for the resolution of complaints and disputes between insurers and their customers; and
- Committing insurers and the professionals they rely upon to higher standards of customer service.

As evidence that these objectives are being met by the current Code, IAL submits that:

- Customer satisfaction has improved year on year under the Code
- Aligned to the obligations in the Code, insurers have taken a leading position in supporting customers affected by catastrophes and disasters
- Take up of general insurance has grown, despite the current economic conditions
- Disputes managed by the industry have remained stable in recent years, avoiding the adverse trends by other areas of the financial services sector.

In further improving the Code, IAL submits that the Insurance Council of Australia (ICA) should take the opportunity to:

- Align the Code to the new Financial Ombudsman Service (FOS) Terms of Reference and ASIC's Regulatory Guides 139 and 165;
- Provide a definition of 'complaint' and 'dispute' to aid relations with consumers and provide a consistent basis for reporting by Code signatories;
- Provide guidance and examples regarding what may constitute a 'significant breach' for both Code signatories and the Financial Ombudsman Service in its role as monitor of Code compliance; and
- Reduce instances of duplication that currently exist in the Code.

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2. Insurance Australia Limited

Insurance Australia Limited (IAL) welcomes the opportunity to provide a submission to the Independent Reviewer on the review of the General Insurance Code of Practice (the Code). IAL supports a Code that facilitates open, fair and honest dealings with customers.

IAL is a subsidiary of Insurance Australia Group Limited (IAG), an Australian publicly listed company with operations in Australia, New Zealand, the United Kingdom and Asia. IAL distributes insurance under many leading brands, including: NRMA Insurance, SGIO and SGIC. IAL's core lines of business include: home insurance, motor vehicle insurance and compulsory third party (CTP) insurance.

During the 2007/08 financial year, IAL's Gross Written Premium (GWP) was \$2,666m, an increase over the prior financial year at \$2,648m.

IAL has a crucial interest in the long-term sustainability of insurance as a product that is valued by the Australian community.

3. The Australian Insurance Industry

The turmoil in world financial markets will bring into focus the issue of an appropriate supervisory and regulatory environment in Australia, including self regulation. It is important to note that, unlike insurance companies operating in foreign markets, Australia's insurance companies are well capitalised, profitable, well regulated and weathering the current financial turmoil.

In this context, there appears to be little evidence to support a wholesale review of the insurance sector's regulatory architecture in Australia. However, there are opportunities for targeted improvements to be made in order to increase the efficiency and effectiveness of the system.

While Australia's financial services regulatory regime is working well and is highly regarded, regulatory review is, necessarily, a continuing process. The issue of balance will need to apply to the review of the Code.

4. Importance of Insurance to the Australian Economy

The Australian insurance industry provides a fundamental service to Australian consumers, by accepting risk from the community and businesses in exchange for premiums. Australia is known world-wide for having best practice in its insurance regulatory framework, of which the Code plays a critical part¹.

The insurance industry represents approximately 2 per cent of Australia's gross domestic product². As at 30 September 2008, there were 129 general insurance companies operating in Australia, managing \$91 billion in assets. The Australian insurance market is stable and mature, employs approximately 60,000 people and pays \$70 million in claims to policyholders each working day. It is the fourth largest sector of the Australian economy³.

Net premium revenue for the industry in the year ended 30 September 2008 was \$23.1 billion, up 3.9 per cent from the previous year. Of this, direct insurers wrote \$21.8 billion (94.5 per cent). The remaining \$1.3 billion (5.5 per cent) was written by re-insurers⁴.

The Australian industry is ranked 12th globally in terms of premiums and 4th in the Asia-Pacific region. Australia's underwriters and actuaries are recognised as world class and the industry is subject to strong risk based supervision⁵.

The size and magnitude of the domestic insurance industry is testament to a healthy regulatory and self regulatory framework in Australia.

5. The Code

Self regulation, such as the Code, should be crafted to serve a long term sustainable view of objectives. Wayne Byres, Executive General Manager, Diversified Institutions Division Australian Prudential Regulation Authority recently stated⁶:

¹ Australian Government, AusTrade, www.austrade.gov.au/invest, March 2009

² Centre for International Economics, *The general insurance sector: big benefits but overburdened*, August 2005, p 14

³ Australian Government, AusTrade, www.austrade.gov.au/invest, March 2009

⁴ Australian Government, AusTrade, www.austrade.gov.au/invest, March 2009

⁵ Australian Government, AusTrade, www.austrade.gov.au/invest, March 2009

⁶ Presentation to the 9th Annual International Seminar on Policy Challenges for the Financial Sector - Emerging from the Crisis – Building a Stronger International Financial System, June 3-5, 2009 Washington, D.C.

...much of the discussion on mitigating procyclicality seems to be heavily focussed on regulation and rule-making - but supervision and governance have just as important a role to play in mitigating procyclical behaviour. They seem to have been somewhat forgotten in the desire to develop new rules.

The Code should facilitate standards of service that benefit consumers and the industry irrespective of economic cycles. IAL submits that the Code currently provides these long term standards. These standards are reinforced through the governance and compliance frameworks of the Code signatories and the supervisory activities of the FOS.

IAL cautions against reactive attempts to change the Code. IAL encourages the Independent Reviewer to assess the:

- Strength and robustness of the current regulatory system governing Australia's general insurance industry;
- Role the industry's self-regulating Code plays in harmony and alignment with the financial services sector's other legislative and regulatory obligations; and
- Continuing improvement to customer interaction and dispute resolution that the current Code has prompted, relative to other industries.

The Terms of Reference for the Review of the General Insurance Code of Practice (Code) are whether the Code:

- Promotes better, more informed relations between insurers and their customers;
- Improves consumer confidence in the general insurance industry;
- Provides better mechanisms for the resolution of complaints and disputes between insurers and their customers; and
- Commits insurers and the professionals they rely upon to higher standards of customer service.

IAL will discuss aspects of the Terms of Reference within this submission.

5.1 Promoting better, more informed relations between insurers and their customers

The Code has had proven results in supporting more informed relations between insurers and their customers. This is evidenced by consistent results from the IAG Direct Insurance Customer Satisfaction Survey (CSI).

The CSI is a measure of the end to end customer experience from our sales area through to the claims side of the business. It is calculated by combining customers' overall assessment of the service they received and aims to assess the performance of the retail and claims customer service equally.

The survey is conducted by Synovate, an independent market research supplier. Customers are interviewed by telephone about their most recent interaction. This helps IAG to track and measure the relationship we have with our customers.

IAL's score has been increasing year on year since the survey was established in 2006. Initial results represented a Customer Satisfaction Index score of 80. In 2008, positive customer feedback resulted in an increased Customer Satisfaction Index score of 84.⁷ From this we are able to assume that the vast majority of our customers are satisfied with the service they have received and interestingly, these improvements are concurrent to the years in which the Code in its current form has been established. This gives further insight into the practical benefits and support that the Code provided in promoting positive and informed relations between insurers and their customers.

5.2 Improving consumer confidence in the general insurance industry

IAL continually strives to instil confidence in its customers, and improve overall consumer confidence in the general insurance industry. IAL submits that the success of such initiatives may be evidenced by industry metrics, such as year on year growth in total policies across the sector. In this context, it is worth noting that from 2007 to 2008, total policies increased from 29,967,257 to 31,259,018 respectively, despite worsening economic conditions⁸.

⁷ IAG Sustainability Report 2007, IAG Annual Review 2008.

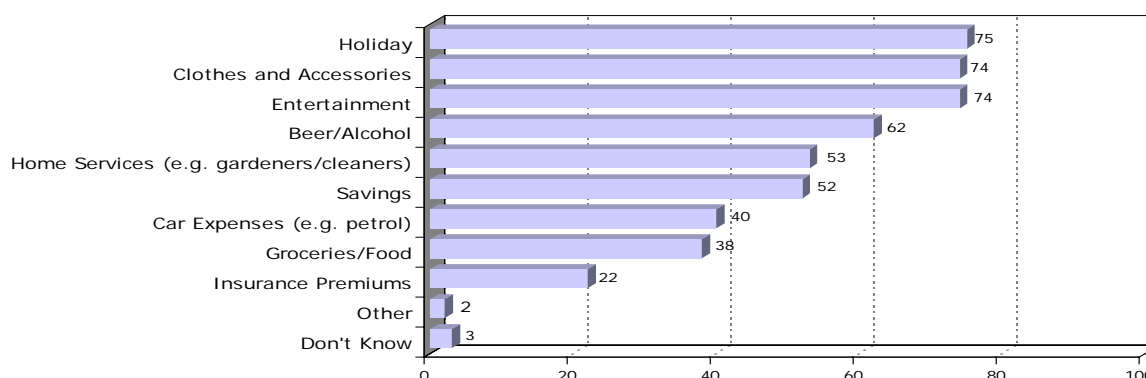
⁸ IOS 2006 – 2007 Annual Review, Insurance Ombudsman Service Annual 2008 Review

Further, this measure of total policy growth predominantly relates to domestic insurance contracts, including motor, home and contents and travel. These contracts are those that are covered under the current Code⁹.

IAL submits that this data firmly establishes that the current Code is performing in accordance with its objectives and that members subscribing to the Code have successfully developed and maintained consumer confidence in the general insurance industry despite deteriorating economic pressures on both insurers' and consumers.

The chart below illustrates Australian consumer's attitudes towards discretionary spending. The chart indicates that insurance is one of the last products that Australian consumers discontinue in uncertain economic times.

Insurance as one of the last areas Australian consumers discontinue in uncertain economic times:



Source: OmniAccess Savings & Insurance study, October 2008

In comparison to the total policy growth experienced by the Australian insurance market, research undertaken by the Association of British Insurers (ABI) would suggest that customers in the UK are not renewing their home and buildings insurance.

ABI research states that 22 per cent of UK policyholders have cancelled or not renewed their home contents insurance this year. A further 17 per cent of participants state they have ceased their building cover. These trends have not been experienced within the Australian insurance industry¹⁰.

⁹ IOS Annual Report 2006

¹⁰ Insurancenews.com.au, Warning signs for home and contents cover, www.abi.org.uk

Consumer confidence within the American market place is lower still. Consumers are now looking for increased reassurance and security in the financial services industry and are opting for more reputable brands, "consumer trust in financial services has been severely undermined"¹¹.

In this context of both the domestic and international insurance markets, IAL would submit that the Code is serving the industry, consumers and insurers well.

5.3 Catastrophe and Disaster Response

IAL strives to ensure that its brands respond expeditiously and appropriately at the time natural disasters occur. In these situations, IAL strives to settle claims compassionately and responsively and with the least amount of customer stress.

IAL therefore believes that the Catastrophe & Disaster response provisions of the Code has been demonstrably effective in promoting the standards of service that consumers can expect in times of catastrophe and disaster. IAL submits that IAL, and the broader GI industry has been consistently successful in delivering efficient, responsive and compassionate service during such times, as evidenced by the public and parliamentary commentary detailed below.

In relation to the Victorian bushfires, the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, Chris Bowen addressed the Federal Parliament and stated¹²:

I take this opportunity to say to the front-line insurance workers who are dealing with victims being exposed to distressing scenes and stories every day and doing their best to resolve issues as quickly as possible that we appreciate their work...

And

... Last week I met with the chief executives of each major insurance company in Australia. Each of them indicated a desire to work proactively with the government to resolve issues as they arise, which we appreciate.

IAL is proud of its catastrophe response management and includes public commentary in this regard:

¹¹ Finance Intelligence, Mintel Int. Ltd, Dec 08

¹² Assistant Treasurer Chris Bowen addressing Federal Parliament, 26 February 2009.

Cyclone Larry, March 2006¹³:

... I single out the NRMA for praise - their staff were standing in the main street, with their ties and white shirts on, from day one...

Cyclone Larry Recovery Task Force, July 2006¹⁴:

IAG operates NRMA Insurance, CGU, Swann Insurance and other brands, and it has really proven to be the front-runner when it comes to getting the job done.

Sydney's storms in the South and Western suburbs, December 2007

...NRMA's been very good¹⁵.

Lismore floods, February 2008

NRMA has shown itself to be a good corporate citizen¹⁶.

Coff Harbour floods, May 2009

I praise the NRMA, the insurers, assessors and brokers for the timely manner in which they operated¹⁷.

5.4 Better mechanisms for the resolution of complaints and disputes

The standards set by the Code have facilitated a robust internal and external complaint and dispute resolution system for consumers and the insurers.

¹³ Federal Member for Kennedy, The Hon Bob Katter, Hansard, Tuesday, 28 March 2006 Australian Parliament House.

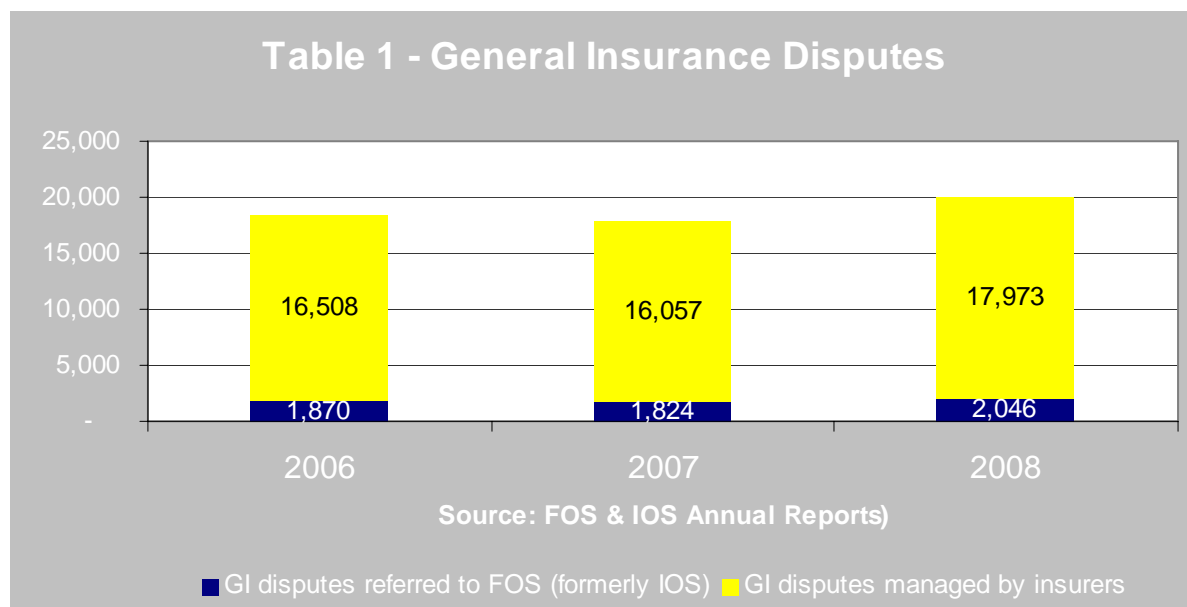
¹⁴ Cairns Post, 1 July 2006, General report by General Peter Cosgrove, selected to the Queensland Government's taskforce following Cyclone Larry.

¹⁵ 2UE Breakfast program, 1 January 2008, Discussion on Sydney's storms in the South and Western suburbs. Interview between Mike Carlton and Nathan Rees, NSW Minister for Emergency Services and Water Utilities.

¹⁶ Federal Member for Page, Ms Janelle Saffin, MP, Tweed Daily News, 9 February 2008, p 9.

¹⁷ State Member for Coffs Harbour, Mr Andrew Fraser, MP Hansard, 20 May 2009, NSW Parliament House.

As Table 1 illustrates, since the launch of the current Code in 2006, the industry has maintained a consistent record of resolving the majority of disputes efficiently and effectively through internal mechanisms thereby reducing the need for escalation to the FOS (formerly the Insurance Ombudsman Service).



For the year ended 30 June 2008, the first year of consolidation under the merged FOS, the FOS reported an average increase of 22.8% in new disputes received across the financial services sector¹⁸. This was underpinned by a 22.7% increase in the Banking and Finance sector and a 33% increase for the six months to 30 June 2008 in the Investments, Life Insurance and Superannuation sectors, primarily driven by the impacts of the global financial crisis.

At the same time, the general insurance industry only experienced a 12.6% increase in new disputes, which as Colin Neave, then Chief Ombudsman of the FOS, stated was driven by¹⁹:

“workload mainly resulting from significant weather events in the 2007-8 year.”

The recent amendments to ASIC's Regulatory Guides 139 and 165 and the FOS Terms of Reference seek to consolidate this positive trend and bring consistency to the Financial Services industry. IAL supports moves to ensure alignment between RG 139, RG 165, the FOS Terms of Reference and the Code but submits that the Code does not need further enhancement relating to standards for complaint and dispute handling.

¹⁸ FOS Annual Report for year ended 30 June 2008

¹⁹ Media Release dated 10 December 2008, accompanying the release of the FOS' first annual review of disputes across the financial services sector

6. Further Matters for Consideration by the Independent Reviewer

6.1 Alignment with FOS Terms of Reference and ASIC RG 139 and 165

As previously noted, IAL would support a recommendation from the Independent Reviewer that the existing Sections of the Code be amended to ensure alignment with recent changes to:

- The FOS Terms of Reference;
- ASIC Regulatory Guide 139: Approval and oversight of external dispute resolution schemes; and
- ASIC Regulatory Guide 165: Licensing: Internal and external dispute resolution.

In particular, aligning the timeframes set out in Sections 6.2 to 6.9 with those set out in paragraphs 61 to 68 of RG 165 and Section 6.3 of the FOS Terms of Reference.

6.2 Definitions

Section 7.2, paragraph (b) of the Code requires Code signatories to “prepare an annual report on our compliance with this Code”. This reporting is coordinated by the FOS and instructions issued for the year ended 30 June 2009 set out that insurers are to provide statistics relating to:

- The number of internal **disputes** handled;
- The total number of **policies** and renewals; and
- **Claims** registered.

However, the above terms, highlighted in bold, are not defined in the Code. This potentially leads to inconsistent recognition by individual insurers and impairs comparability of the statistics in the FOS Annual Report.

IAL recommends that these terms are defined in the Code.

6.3 Guidance regarding 'significant breach'

Section 7.3 of the Code requires insurers to voluntarily report significant breaches to the FOS (formerly IOS). This requirement mirrors the obligation that Australian Financial Services Licensees have had under Section 912D of the Corporations Act since 2002.

In October 2004, to help licensees and ASIC judge whether a breach is a 'significant breach', ASIC released a paper titled: "Breach reporting by AFS licensees" (now Regulatory Guide 78). This paper included examples and general guidance on managing this obligation.

In addition to the insurers' obligation to self report under the Code, the FOS also identifies and reports potential 'significant breaches', in its capacity as the industry's external dispute resolution body and under Section 7.9 of the Code, as monitor of the Code.

Currently, letters received by IAL from the FOS alleging Code breaches also request the insurer to confirm whether the alleged breach is a 'significant breach'. In many instances, it is clear from the alleged breach that it is a one-off instance and not indicative of a systemic issue or 'significant breach'. This default approach leads to avoidable compliance costs.

As a result, IAL recommends that a guidance document be developed with examples of breaches that would be considered significant to help both insurers and the FOS.

6.4 Reduce duplication

IAL submits that the Independent Review should take the opportunity to reduce two instances of duplication contained in the Code:

The first instance relates to the "Buying Insurance" section of the Code. Paragraph 4 of Section 2.1, sets out that:

"Our sales process will be conducted in a fair, honest and transparent manner."

Meanwhile, Paragraph 1 of Section 2.4, sets out that:

"Our Employees and our Authorised Representatives will conduct their services in an honest, efficient, fair and transparent manner."

IAL submits that paragraph 1 of Section 2.4 is subset of paragraph 4 of Section 2.1 and recommends that the sections be replaced with the following single section:

"Our sales process, including the conduct of our employees and Authorised Representatives, will be carried out in an honest, fair, efficient and transparent manner"

The second instance relates to the "Insurance Claims" section of the Code. Paragraph 1 of Section 3.4, sets out that:

"We will conduct claims handling in a fair, transparent and timely manner."

Meanwhile, Paragraph 1 of Section 3.6, sets out that:

"Our Employees and our Service Providers will conduct their services in an honest, efficient, fair and transparent manner."

IAL submits that paragraph 1 of Section 3.6 is subset of paragraph 1 of Section 3.4 and recommends that the sections be replaced with the following single section:

"Our Employees and our Service Providers will conduct claims handling in an honest, fair, efficient and transparent manner"