

**Ministry of Business, Innovation and Employment (MBIE)**

Email: [insurancereview.@mbie.govt.nz](mailto:insurancereview.@mbie.govt.nz)

13 July 2018

Dear MBIE Staff,

**Regarding: Insurance Contract Law Review, Issues Consultation**

**About this submission:**

This submission is from Russell Hutchinson of Chatswood Consulting Limited. I also have an interest in the insurance comparison website for financial advisers, [www.quotemonster.co.nz](http://www.quotemonster.co.nz). Chatswood provides management consulting services to insurers that offer life, trauma, income protection, and health insurance. Quotemonster provides comparisons of those products to financial advisers.

This submission focuses on the aspects of the discussion document which deal with comparison of insurance policies. Through the Financial Services Council I have also contributed to a submission which covers most of the other issues in the discussion document, and I endorse the FSC submission on those points.

No part of this submission is confidential.

**Comparing and Changing Policies and Providers**

28 Is it difficult for consumers to find, understand and compare information about insurance policies and premiums? If so, why?  
29 Does the level of information about insurance policies and premiums that consumers are able to access and assess differ depending on the type of insurance? E.g. life, health, house and contents, car insurance etc.

In summary it is difficult, but it varies considerably, depending on the type of insurance being considered:

1. Life and health insurance (including income protection, trauma, and total and permanent disability)
2. House, contents, car insurance (including, boat, renters cover, and other similar contracts)

Information and comparison also vary depending on the aspects of an insurance policy you might wish to compare:

1. Price
2. Terms (including conditions, limits, and exclusions)
3. Service

Using the terms in your question, for consumers to “find, understand, and compare information about insurance policies,” for each type of insurance in turn:

**For house, contents, and car insurance:**

Most insurers do not offer indicative quoting online, I am not aware of any that share their pricing information with third parties or researchers. Policy documents are relatively harder to access. There are very few comparison services. Even advisers in the market find it hard to compare policies for reasons of access to data, and therefore rarely offer their clients written comparisons. This is in sharp contrast to the

situation in many other open economies. I am not an expert in this part of the market and refer you to those that are, in order to assess why this might be, and what policy responses you might consider.

### For life and health policies:

**Price** – most insurers offer online quote tools, most of them share their indicative pricing information with research companies and third-party advisers, and so most of their prices are also obtainable on comparison websites, and compared by many third-party advisers. I give more detailed information in the table below.

**Terms** – most insurers publish their policy documents on their own websites, and also provide them to research companies, and third-party advisers. So, most of their policy documents can be **found**. As they are complex documents they are not easy to *understand and compare*.

*Developments in making understanding easier.* many life and health insurance companies have worked to improve both access to documents, provide explanatory material in addition to policy documents, and to make the documents themselves easier to understand. The use of 'plain English' has its limitations. Two significant limitations are:

- The need to use precise medical and legal terms
- The structure of the policy documents, which typically requires the consumer to refer to four different sections of the document (a schedule, base terms, specific terms, and definitions) in order to have complete understanding of a whole feature.

For these reasons effective comparison of an insurance policy is similar in difficulty to, say, comparing the specifications of a laptop, a house, or motor vehicle. These are very complex products, and often require the support of a specialist in order to assess specific aspects of their performance adequately. At the same time, they are also bought by consumers un-assisted by professionals, often based on simplified forms of information disclosure, because consumers feel comfortable that minimum standards are applied at some level. Sometimes poor outcomes result from either buying process.

It is probably not possible to radically simplify the language used further. Trade-offs are involved, making some aspects of insurance simpler, tends to make others more complex: for example, making underwriting simpler (by asking fewer questions) tends to make more exclusions necessary, and requires a higher price. Making policy terms simpler, tends to mean the scope of cover has to be narrower.

It is possible to make the structure of policy documents simpler, and there are some examples in the market, where the document is digital, and populated throughout with the right data. For example: instead of referring the client to the "life assured" it shows the name, instead of referring the client to the "sum assured in the schedule" it shows the sum assured in the text, and shows the definition of a complex word, in a pop-up box.

*Developments in providing comparisons:* several companies now offer simplified comparisons of insurance policies to assist consumers in their reviews. I have a 50% interest in one of those companies, Quality Product Research Limited, that mainly provides comparison services to the market through advisers, and Lifedirect (a TradeMe business). There are several others, the most notable of which are Canstar, and IRESS (both based in Australia) and Strategy (based in Christchurch). The comparisons take many forms, some are very simplified (star ratings) some are very complex (including direct comparisons of the text of features with quantitative evaluations of the impact of terms). Therefore, some comparisons are offered direct to consumers, and some as an aid to financial

advisers.

These comparisons include price, terms, and sometimes, service ratings as well. Comparison methodologies are still developing. Early versions were simply 'tick lists' of included or excluded features. Current versions usually include some weighting for importance. The research methodology used by Quality Product Research Limited endeavours to be value-based, with larger scores for items of more value, which are more likely to be used, or more frequently used.

30 What barriers exist that make it difficult for consumers to switch between providers?

31 Do these barriers to switching differ depending on the type of insurance? E.g. life, health, house and contents, car insurance etc.

As switching is usually something one does either to achieve a benefit desired (better coverage) or a reduction in cost, it is heavily dependent on information availability. It is also dependent on the willingness of a new insurer to enter into a contract with the client. For home, contents, and car insurance, there are few reasons that would prevent a consumer from moving the cover, except, perhaps, a record of dishonesty offences or cancelled policies.

*For life and health insurance*, where contracts are renewable at the client's discretion irrespective of their health, a new insurer may defer offering cover when reviewing an application from an applicant who is in poor health. Once an insurer takes a client on risk, the client has the option whether to continue the cover by paying the premiums. The insurance company cannot choose not to renew the policy. If a client's health deteriorates since they took out the policy, it may be difficult to obtain similar terms with a new provider, which is a barrier to switching. This is an added impediment to a consumer moving their insurance to a new provider.

In the long-run, every client will reach a point where they are uninsurable (as health generally declines with age). The best solution for this situation is good financial management, a client accumulating sufficient assets and reducing debt and payments to dependents to the point that they no longer need cover.

**Next page: table of resources available to consumers for comparison:**

## Comparison websites

Insurance cover for...	Instant Online Quotes						Request a quote				
	LifeDirect	Ratebroker	Income Protection Insurance NZ	Insure Me	Compare Now	Discount Life	Compare Life Insurance	Kiwi Life Insurance	My Insurance Guide	Smart Insure	My Life Insurance NZ
Life	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Trauma	✓		✓	✓	✓	✓	✓	✓			✓
TPD							✓				
Income	✓	✓	✓		✓	✓	✓			✓	✓
Mortgage	✓	✓			✓						
Health	✓	✓		✓		✓			✓	✓	✓
Funeral Cover	✓										
House											
Contents									✓		
Car									✓		
Boat									✓		
Business									✓		

[www.quotemonster.co.nz](http://www.quotemonster.co.nz), the website run by Quality Product Research Limited, only provides comparison services to financial advisers, which is why it is not listed in this table.

## Single insurer websites

Insurance cover for	AIA	Accuro	AMP	nib	Cigna	Pinnacle Life	Sovereign	KiwiCover	AA	Southern Cross	State	AMI
Life	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓
Trauma	✓				✓	✓		✓			✓	✓
TPD	✓					✓						
Income	✓				✓	✓					✓	✓
Mortgage	✓				✓	✓					✓	✓
Health	✓	✓		✓			✓			✓		
Funeral Cover					✓	✓			✓			
House									✓		✓	✓
Contents									✓		✓	✓
Car									✓		✓	✓
Boat												
Business												

32 What, if anything, should the government do to make it easier for consumers to access information on insurance policies, compare policies, make informed decisions and switch between providers?

The purpose of this submission is mainly to provide information, to help you formulate policy, rather than to suggest policy directly. However, I do think that government would do well to recognise the role of financial advisers and third parties in helping consumers to make informed choices about complex financial products, and acknowledge that there is an effective range of resources to enable consumers to compare most *life and health insurance products*. If government can contribute to this marketplace in anyway, it could require disclosure of policy wordings, although most life and health insurers, already publish these. Also, for consumers, you may consider the importance of developing consumer capability in wider financial planning, and the role of insurance in that.

Yours sincerely,

Russell Hutchinson  
**Director**

Chatswood Consulting Limited

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OFFICIAL INFORMATION ACT