

Monday October 31, 2016

Government-run price comparison website could lead to poor consumer outcomes

The Insurance Council of Australia (ICA) today said a government-run insurance price comparison website was unnecessary, and it would seek a meeting with Senator Nick Xenophon to explain insurance pricing and competition.

ICA CEO Rob Whelan said the global experience had been that comparison websites had the perverse impact of reducing consumer awareness of product features and selection by focusing primarily on price.

He said comparison websites increased the chance of policyholders inadvertently finding they were not properly covered when they needed to lodge a claim.

“Comparison websites encourage customers to choose policies based on price, rather than look for value and the features that most suit their needs and circumstances,” he said.

“Each insurer’s policies are different because consumers demand a range of features and benefits, which the competitive insurance market provides.

“The Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) have each expressed serious concerns about comparison websites.

“An ACCC report in 2014 found the over-simplification of information on these sites can obscure important differences between products and policies. In 2012, ASIC raised concerns about the accuracy and reliability of comparison websites and warned operators that they must comply with consumer protection laws to ensure they were not misleading customers.

“The UK Financial Conduct Authority review into comparison websites in 2014 also found the simplification of products fuelled false perceptions that all products were the same, and discouraged consumers from obtaining knowledge on products.”

Mr Whelan said insurers already competed fiercely on both prices and features, to the benefit of policyholders.

“Home building insurance premiums have been static for more than two years and contents insurance premiums have actually fallen over the past three years. Motor insurance premiums have barely moved in the past four years,” he said.

“Insurers are increasingly expanding their policy coverage and introducing innovative products as they seek a competitive advantage over their rivals.

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“A government-run price comparison website risks insurers abandoning this approach to simply focus on cutting costs, to the detriment of the community.

“In an era of increasingly volatile and damaging natural disasters, this idea could have serious adverse unintended consequences on consumer outcomes – the focus would be on price, rather than value for money and the suitability of products for consumers’ exposure to risks.

“If governments and politicians wish to reduce the cost of insurance, the fastest way to slash prices would be to put pressure on state and territory governments to ditch stamp duties on insurance policies, which typically add about 10 per cent to the final cost.”

For statistics on trends in home building, contents and motor insurance premiums see:

<http://www.insurancecouncil.com.au/industry-statistics-data/gi-statistics/building>

<http://www.insurancecouncil.com.au/industry-statistics-data/gi-statistics/contents>

<http://www.insurancecouncil.com.au/industry-statistics-data/gi-statistics/motor>

For information about insurance stamp duties see:

http://www.insurancecouncil.com.au/media_release/plain/335

http://www.insurancecouncil.com.au/media_release/plain/323

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