



Insurance Council
of Australia

Guide on best practice disclosure

To support the Insurance Council of Australia's
General Insurance Code of Practice



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About this guide

1. This guide is for organisations that agree to be bound by the General Insurance Code of Practice.
2. Effective product disclosure plays an important role through all stages of the product life cycle from ensuring that people make an informed decision at the point of sale to minimising any gap in the customer's expectations at claim time.
3. To drive people's comprehension and engagement, insurers need to do more than merely comply with mandated disclosure requirements. They need to make sure:
 - a. their product disclosure works alongside other measures — for example, their product design processes; and
 - b. they have a clear objective to engage people and help them make their decisions.
4. The Insurance Council of Australia has — with input from member companies and other stakeholders — developed these best practice principles to enable its members to benchmark their practices against industry-agreed best practice standards. The Principles are meant to encourage members to make continual progress in meeting the highest standards of best practice product disclosure.
5. This guide does not bind insurers. Nor does it have legal force. Complying with the guide is voluntary. Even so, the Insurance Council of Australia — having developed the document with input from member companies and other stakeholders — encourages insurers to use the document to help develop internal processes, procedures and policies.
6. An important objective of the General Insurance Code of Practice is to '... promote better, more informed relations' between insurers and customers and people seeking insurance. The Code requires insurers:
 - a. to conduct the sales process in an efficient, honest, fair, transparent and timely manner; and

- b. to take reasonable steps to ensure their communications are in plain language.

This guide operates within the formal regulatory regime created by the *Corporations Act 2001* (Cth) and the *Insurance Contracts Act 1984* (Cth). The guide in no way limits the obligations on members to comply with disclosure obligations that apply under relevant law.

7. In this light, the insurance industry has committed to moving from a minimum, mandated, disclosure approach to best practice transparency.
8. The Insurance Council of Australia will seek to update this guide to reflect learnings from members' trials of innovative disclosure techniques.

Overview — Best practice principles

9. The following six best practice principles about product disclosure are discussed below:

Principle 1

Insurers need a clear understanding of people's information needs and information sources.

Principle 2

Insurers' communications should be clear and reader-friendly.

Principle 3

Disclosure should promote engagement with customers and people seeking insurance.

Principle 4

Disclosure should encourage informed decision-making.

Principle 5

Disclosure should be specific, relevant and helpful in context.

Principle 6

Disclosure should occur at times and in ways that work for the person receiving the information.

Principle 1

Insurers need a clear understanding of people's information needs and information sources.

10. Insurers should seek to understand people's information needs and information sources at the various stages of the product life-cycle.
11. When insurers are designing their disclosure process, they need to arrange whole-of-organisation input — including customer-facing employees, customer insights and claims employees.
12. At the pre-purchase stage of the product life-cycle, many people are engaged by sources of information other than the Product Disclosure Statement (PDS). Indeed, the research¹ suggests that these other sources are more effective than the PDS. Those sources include:
 - a. the renewal letter;
 - b. insurer websites;
 - c. online quotes;
 - d. call centres; and
 - e. advertising.
13. Insurers should use all these sources to provide targeted information to people before they make a decision in relation to an insurance product.
14. The extent to which people use advertising for these purposes further emphasises the need for insurers to make sure their advertising is clear and not misleading.
15. At the point of sale, disclosure should aim to inform people about the policy, its cover and particularly key exclusions and limits. It should also help people make informed decisions about the type and level of cover they need.

¹ References to research are to consumer research the Insurance Council of Australia reported on in Consumer Research on General Insurance Product Disclosures (February 2017).

Principle 2

Insurers' communications should be clear and reader-friendly.

16. To enable clear communication with customers and people seeking insurance, insurers should consider:
 - a. **Content:** Making sure they include and prioritise the content readers need;
 - b. **Structure:** Grouping related ideas and using clear and meaningful headings that accurately reflect the information they precede; and
 - c. **Words and sentences:** Using personal pronouns, familiar words, short sentences and the active voice.
17. Insurers should consider engaging:
 - a. communication experts to write, edit or rewrite documents; and
 - b. researchers to test documents with sample audiences to assess and improve the success of their communications.
18. Insurers should continually improve disclosure, including through the use of consumer testing.

Principle 3

Disclosure should promote engagement with customers and people seeking insurance.

19. People are more likely to engage with material if the information is actionable — for example, if they can use the information to make a choice or to take a certain course of action.
20. To engage people, insurers need to harness emerging technologies and to learn from the growing body of behavioural research.
21. Different categories of people find different paths to purchasing an insurance product. Insurers should be nimble and innovative in developing strategies to engage with specific categories of consumers — for example, consumers:

- a. with greater exposure to certain risks;
- b. who are new to the insurance market;
- c. who are vulnerable;
- d. who are not financially literate; and
- e. who are renewing a product.

22. Research indicates that people who are new to the insurance market mostly rely on information they receive through online quotes. A strategy could involve optimising the information presented through online quotes for these consumers.
23. To enhance customer engagement, insurers should identify opportunities for constructive and useful engagement with customers throughout the life of an insurance product. For example, natural hazard events provide an opportunity for insurers to:
 - a. provide useful information to customers about strategies they can use to remove or minimise their risk; and
 - b. proactively prompt customers with practical information about the claims process.

Principle 4

Disclosure should encourage informed decision-making.

24. Insurers need to disclose information that prompts people to consider and assess the types of risks that may be relevant to them, and to focus on selecting the type and level of cover appropriate to their circumstances.
25. Research indicates that:
 - a. very few people consider the risks they are exposed to for which they can arrange cover; and
 - b. many customers believe they have made an informed choice solely on the basis that they considered the price.

26. Improving understanding of exclusions helps people to make better decisions. Research suggests that people have very poor understanding of common policy exclusions, including for:
- a. wear and tear;
 - b. failure to maintain an asset;
 - c. mechanical failure;
 - d. pre-existing damage;
 - e. pre-existing medical conditions;
 - f. risky behaviour; and
 - g. a consumer's obligation to avoid or mitigate damage or loss.
27. Before a potential customer enters into a contract with an insurer, the insurer needs to be sure it has drawn the person's attention to all policy exclusions — and done so in a readily accessible and clear way.
28. Insurers should consider initiatives to improve people's awareness of, and decision-making around, the different types of policies and covers available — for example, in home insurance policies, 'listed events cover' compared to 'accidental damage cover'.
29. Research shows that people particularly misunderstand the types of home insurance policies available, including terminology such as 'total replacement' and 'sum insured'.
30. If an insurer sells a significant proportion of its insurance products through third party distributors (particularly authorised representatives) that do not hold AFS licences, then the insurer should monitor outcomes to make sure that the information those distributors are providing is appropriate and up to expected standards.
31. Insurers should strive to use best-practice disclosure principles for all communications with customers and potential customers — for example, when requesting the customer's consent.

Principle 5

Disclosure should be specific, relevant and helpful in context.

32. Disclosure is more likely to be effective if it is specific and relevant to a particular person rather than generic. Therefore, insurers should explore how to provide people with more specific information while allowing for the fact that some employees — for example, those in call centres — may only provide general advice and information.
33. People who understand scenarios of the most common claims and exclusions are likely to find the scenarios useful when they are making decisions. Research suggests that people who have previously made a claim are more likely to consider policy details when purchasing a policy and have better comprehension of policy exclusions.
34. Similarly, in the sales process for a home building insurance policy, it is useful to provide information about the key expenses in a house rebuild and their importance in calculating the adequate sum insured. Doing so can prompt people to consider the major costs associated with a rebuild and can enhance their decision-making and confidence in the accuracy of the sum insured calculations.
35. When a person is asked a question, contextual information should be provided to help them better understand why it is being asked. This should assist them in responding in a more informed manner.

Principle 6

Disclosure should occur at times and in ways that work for the person receiving the information.

36. Insurers should disclose information to a person when that person is making the decision to which the disclosure relates. For example, telling a person about specific claim scenarios when they are considering their policy options is likely to help them to choose an appropriate option.

- 37.** While a trusted source, many consumers see the PDS as inaccessible and too detailed. This reduces the likelihood that they will use the PDS. If insurers were to make their PDSs searchable and more digestible, it would likely improve the success of their disclosure.
- 38.** Insurers should explore and adopt new forms of electronic disclosure that enable them to deliver information in more relevant and interactive ways. Information the insurer presents to people in ways other than the PDS provide greater flexibility, which may be engaging and user-friendly.
- 39.** Before insurers implement any new forms of disclosure, they should arrange to test the disclosure's usability on consumers. Behavioural research suggests that people's engagement is deterred by even small amounts of 'friction' — for example, any additional steps required to access a document. Usability testing helps to reveal friction that can then be eliminated.

Insurance Council of Australia

The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Its members represent about 95 per cent of total premium income written by private sector general insurers.

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