# 2023 WINNER SUBMISSION

## The Role of Trust in Insurance

**"*Insurance is the business of promises and trust.*" How important is the role of trust in the insurance sector, and how does it impact both insurers and policyholders?**

**By Rachel Hardy**

## Introduction

The battle for consumer trust is a fight the insurance sector has been losing for decades, and the findings of recent investigations into the sector are blows to an industry already down. This essay considers the ways that insurers are attempting to move the needle on trust and the benefits not just for the insurer who implements them, but for policyholders too.

### The Current Trust Climate

The pursuit of consumer trust is clearly front of mind for many insurers, evidenced by a rise in "trust-centric" campaigns focusing on three pillars of trust – Competency, Commitment and Connection:

| Pillar of Trust | Insurer Advertisement |
|---|---|
| **Competency** |  |
| **Commitment** |  |

**Connection**



Such campaigns are frustratingly inconsistent with the systemic issues that continue to be uncovered by regulatory bodies. In the last twelve months alone:

1. insurers have been ordered to repay customers $815 million for breaching pricing promises[1];
2. an insurer had to repay customers $6.7 million for failing to treat certain motor vehicle claims as a total loss[2];
3. an insurer had to repay customers $655,442 for failing to honour a new for old contract term[3];
4. ASIC has sued Auto & General Insurance Company for alleged unfair contract terms[4]; and
5. ASIC successfully sued IAG for $40 million for pricing discount failures[5].

While insurers may focus sales campaigns on the concept of trust, each systemic failure breaches it. Rebuilding and maintaining trust is more relevant today than ever before.

## The Current Insurance Climate

While a policy of insurance has always been seen as a 'pantry staple' to the Australian consumer, the current rise in cost of living is forcing consumers to reconsider their spending habits with 18% of Australian consumers saying that they would cut back on insurance[6].

This is problematic when Australia is becoming an increasingly hypercompetitive market with the entry of Everest Re, Markel and various Lloyds syndicates such as Allstate Underwriting Agency and Canopius. With a rise in the number of competitors wanting to share a piece of the pie, the industry must band together to ensure that its offerings continue to be seen as essential.

The question therefore becomes: What can insurers do to retain themselves in the budget of the Australian consumer?

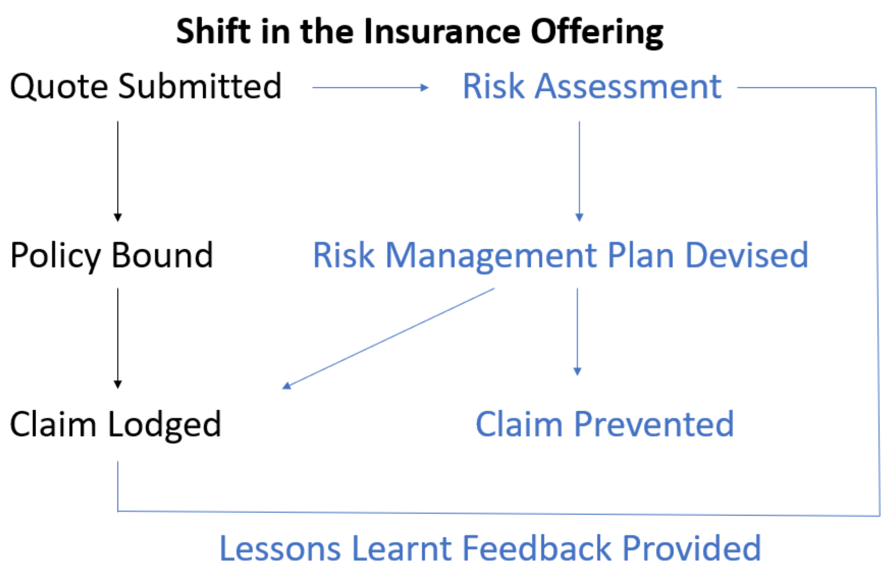
[1] asic.gov.au, 2023
[2] AFCA, 2023
[3] Ibid
[4] asic.gov.au, 2023
[5] asic.gov.au, 2023
[6] business.yougov.com, n.d.

# Redefining the Promise of Insurers

## The evolution of the "Promise"

The traditional promise made by insurers to pay a claim is, in most cases, never tested. It is difficult to ask consumers to trust an intangible promise and so the insurance offering has evolved so that customers are provided with a tangible benefit.

Customers are no longer looking to their insurers for a simple financial transaction when disaster strikes – they are looking for a risk management partner who can supply an end-to-end risk management service covering risk prediction, prevention, and intervention[7].



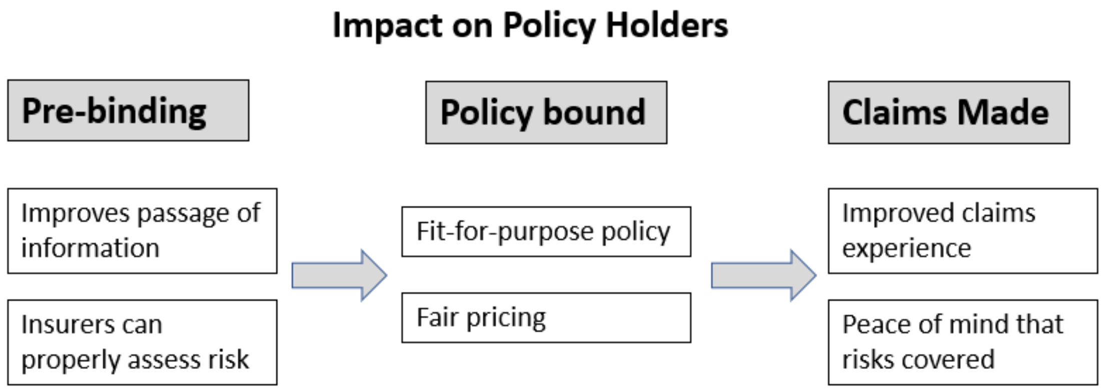

(Submitter 3, 2023)

Insurers have responded, offering benefits for policyholders regardless of whether a claim occurs – Liberty Specialty Markets, AIG, AXA XL and Allianz Global are just a few of the insurers who boast Risk Advisory and Consultancy Teams who can help policyholders develop specialized risk management programs.[8][9][10].

Insurers can utilize global data points to predict risk when a quote is submitted and provide customers with risk management plans to prevent, mitigate and reduce the number of claims. When claims do occur, the risk management 'partnership' allows lessons learnt from that loss to be fed back to the risk management team and integrated and adapted into an updated risk assessment.

[7] Morris, 2022
[8] Liberty Specialty Markets, n.d
[9] AIG n.d
[10] axaxl.com, n.d.

## What does this mean for Policyholders?




(Submitter 3, 2023)

Establishing a partnership with policyholders fosters a collaborative relationship that encourages transparent and free-flowing communication, providing benefits at every stage of the insurance offering.

A. Pre-Binding

The improved passage of information gives insurers an accurate insight into the operation of a customer's business. Every business is unique with a different risk profile and deserves to be treated as such. When customers feel understood by their insurer, they are forthcoming with documentation and information that assists with the assessment of the risk.

B. Policy Bound

The partnership allows insurers to provide policyholders with a fit for purpose policy at a fair price. Underwriters can endorse and/or exclude policies so that a business' individual needs are catered for while ensuring that there are no gaps in coverage. A good example is the need for remote mining companies to have cover for aviation risk arising from Flight-In–Fly-Out workers – a slightly novel risk that is essential to the operation of a mining site. While a standard liability policy contains an Aircraft exclusion, underwriters can alter the scope of cover to include a Non-Owned Aviation Endorsement so that the Insured mining company has a policy of insurance that is specific to its needs.

Pricing for a risk that is well-understood is also more likely to be fair as underwriters have clarity around what they are pricing for.

C. Claims Made

The outcome for policyholders is a better claims experience. By the time a claim occurs, policyholders and insurers have a long-standing relationship and policyholders are more inclined to trust that their best interests are being protected. This manifests in a material way as insurers can make coverage decisions and resolve or defend (in the case of third-party claims) claims more efficiently and effectively.

### What do insurers stand to gain?

Insurers stand to profit from this evolution in insurance model in two main ways. For one, it has the potential to reduce the number of overall claims. Research done into home claims suggest 50% of claims are avoidable with proactive measures[11], which is of course welcome news to an insurer. It also allows for more accurate and sophisticated risk selection, which can have an impact on underwriting profits.

Humanising the insurance relationship from transactional to 'risk partner' is, however, just one way in which fostering trust can positively impact the outcomes for insurers and policyholders.

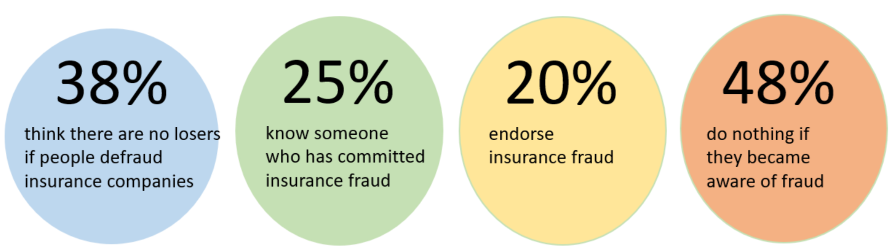
## The Cost of Mistrust: A Focus on Fraud

Trust also encourages policyholders away from issues that have historically marred the sector with its financial implications – fraud.

Insurance fraud is estimated to cost the economy more than $2billion annually[12], and is at least in part fuelled by the mutual distrust between policyholders and insurers. While pre-meditated fraud may always exist, the most common form of insurance fraud is opportunistic fraud ie the exaggeration of otherwise legitimate claims[13].

### Changing consumers' attitudes

There is the perception that insurance fraud is an acceptable crime. A study conducted by AXA found that this apathy is rooted in distrust – half of the people questioned thought insurers acted dishonestly and almost one-third thought that insurers tried to unfairly rely on small print[14]. It follows that customers may feel it is their right to 'make the most' of a claim when opportunity knocks, and various studies corroborate this suggesting finding that most Australians are apathetic when it comes to insurance fraud – [15][16]




[11] Ibid 8
[12] www.ifbaintelligence.com, n.d
[13] Ibid
[14] AXA, 2016
[15] Van Heerden, 2017
[16] Baldock, 1997

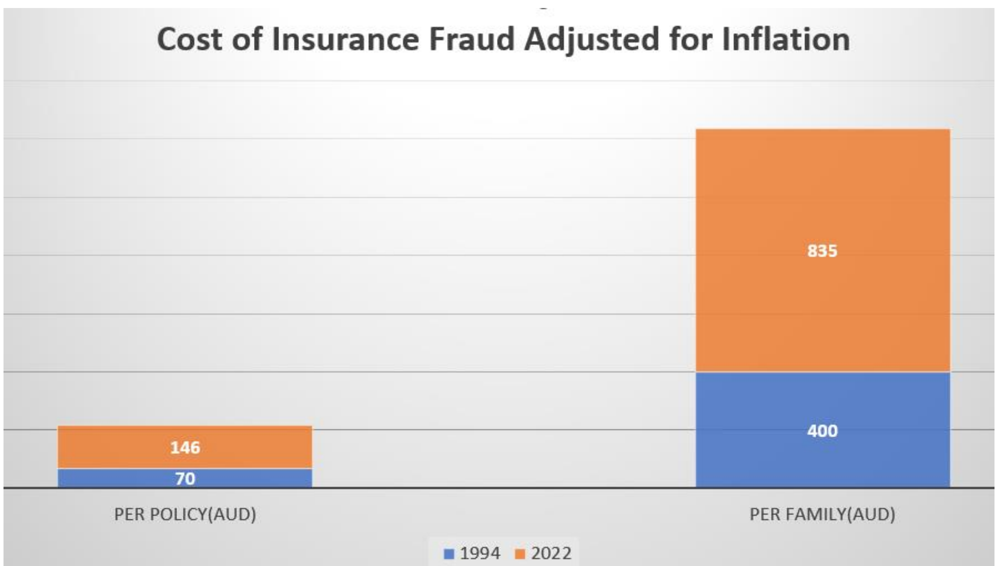
## The Cost of Fraud – Impact on Insurers

The widespread perception that insurance fraud is a victimless crime is plainly false and it goes without saying that fraud has a significant impact on an insurers' bottom line.

A 2017 study revealed that Australian insurers detected $280 million in fraudulent claims[17], however the true figure, factoring in undetected fraud, is significantly higher. This is consistent with a 2022 study out of the United States estimating that fraud costs at least $308.6 billion every year[18].

## Impact on Policy Holders

It is not just insurers that are affected as costs are passed onto policyholders. Insurers apply cost loading to account for the costs of fraud which leads to higher premiums for all customers. In 1994, the Insurance Council of Australia estimated that fraud adds an extra A$70 to the cost of every general insurance policy, with the average family contributing in excess of A$400[19].




(Inflation calculated using Reserve Bank of Australia Calculator) (Submitter 3, 2023)

Insurance fraud can also take the form of deliberate misrepresentation and non-disclosure of risks, which can lead to protection gaps for policyholders. If policyholders do not trust that insurers will act honestly and pay out a claim, there is no perceived value in insurance and customers will try and secure a policy with the

[17] Insurance Council of Australia, n.d
[18] InsuranceFraud.org, n.d.
[19] Baldock, 1997

lowest premium, even if that means failing to disclose certain aspects of a risk[20]. Policyholders are ultimately the ones who suffer as non-disclosure can lead to claims being voided, cancelled or only partially paid.

## Conclusion

For the insurance sector, while the fight for consumer trust may at times feel like a losing battle, it is an important one. With the influx of competitors into the Australian insurance market and the pressure on consumers to redefine their essential spending, securing consumer trust is more important than ever before. The pursuit of consumer trust is already re-defining the insurance offering, evolving an arm's length transactional relationship to an all hands-on deck risk partner, empowering policyholders and discouraging fraud – all of which have a positive impact on the bottom line for insurers and claims experience for policyholders.

[20] Dsh.gov.au, 2020

## Thought Leadership

**In recent years, the insurance industry has witnessed numerous challenges, including a global pandemic, turbulent market conditions, and natural disasters. How can leaders in the insurance industry prepare for and navigate unforeseen crises in the future?**

Embracing uncertainty is the essence of leadership; recent challenges are not a guide of what will be faced in the future and there is no utility in leaders of the industry planning for the last disaster.

This essay considers that all challenges will be overcome with the right products, processes and people.

**1. Refine Products** → **2. Simplify Process** → **3. Retain Talent**

### 1. Refine Products

Before we look ahead to what the industry can become, we must take a step back and ensure clarity of our most basic products. Underwriters have historically believed that the intention of a policy is enough to overcome any ambiguity or inconsistency in the wording. Courts are making very apparent that is not the case. It is essential that policy wordings are unambiguous.

We need not look further than the headaches caused by outdated references to the *Quarantine Act 1908* (Cth) in Business Interruption policies in the wake of Covid-19 to understand the impact of outdated and unclear policies. Getting the basics right and ensuring policy terms and exclusions are clear will hopefully mean clarity surrounding policy response, no matter what unforeseen crises the industry faces. This will allow insurers to focus on 'getting on with it' - assisting policyholders through times of crises instead of debating policy response.

### 2. Simplify Processes

Technology and Artificial Intelligence can help insurers become more agile and efficient throughout the value chain.  Insurers should ensure every section of the value chain is operating as simply and efficiently as possible so that it can be scaled up in times of crises.

Insurers should invest in this technology now so that it can be relied at in times of crises. An example of this is AXA XL's partnership with "Planet" – a Satellite Imagery Analytics Company that aims to produce 12 satellite images per day[21]. "Planet" will give insurers real time data to show what damage has been sustained in the wake of a disaster so that claims can be immediately assessed and resolved, instead of waiting for a loss adjuster and appropriate experts to be sent out to site.

If this technology can be developed and utilized now, it can be rolled out in times of crises to ensure that claims are dealt with expeditiously.

## 3. Retain Talent

Overcoming future challenges will not be a task for any one individual – having the right team will be key to success. Preparedness begins with culture, and it is important for future leaders of the industry to be surrounded by the right people.

We always hear that people 'fall into' insurance, and too often worn is it worn as a bit of a badge of honour. Insurance provides a core function of society and it is what people turn to in times of crisis. Everybody who works in the industry should be proud and future leaders of the industry should work on breaking this stigma in order to ensure the right people are attracted and ready to tackle the next crisis.

[21] Van Ryswyk, 2020

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