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Financial Markets Policy
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Exposure Draft of the Insurance Contracts Bill

We welcome the progress of the Review of Insurance Contract Law and the release of the exposure draft of the Insurance Contracts Bill by the Ministry of Business, Innovation and Employment (MBIE). Given the extent of the planned changes to long established insurance contract law, consultation on an exposure draft is an important step in ensuring that the changes will effectively meet the policy intent and be workable for the insurance sector. We have appreciated the opportunity to provide this submission and to engage with MBIE during the consultation period.

By way of background IAG is New Zealand's leading general insurer. We insure more than 1.8 million New Zealanders and protect over \$650 billion of commercial and domestic assets across New Zealand. IAG receives more than 450,000 claims annually and in the last financial year paid \$1.599 billion in settling them.

IAG is a member of the Insurance Council of New Zealand (ICNZ) and abides by ICNZ's Fair Insurance Code. We contributed to ICNZ's submission on this consultation and support its contents and recommendations. Confident, fair, and efficient transactions between insurers and their customers are a key feature of a healthy insurance market and we consider the changes to the Bill recommended in ICNZ's submission will further this objective.

This submission may hold commercially sensitive information. While IAG is happy to appear on any public list of submitters, we ask that certain contents of our submission remain confidential under Section 9(2)(b)(ii) of the Official Information Act 1982 and would be happy to provide a redacted copy for publication purposes.

Implementation of the changes to insurance contract law provided in the Bill

In this brief submission we expand on issues associated with the implementation of the changes provided in the Bill in response to Question 37 of the Consultation Paper. In short, we anticipate this will be the most significant and resource intensive regulatory implementation that has ever been undertaken by general insurers in New Zealand. It is accordingly critical that both sufficient time is provided for this work to be undertaken, we estimate at least 24 months, and that particular regard is had to regulatory changes happening in parallel that will have overlapping impacts on the insurance sector.

Implementing the changes will be highly resource intensive

While we generally support the changes provided in the Bill, implementing these will require insurers to review and likely amend all the insurance policies they offer in New Zealand to at least some extent. Insurers and others in the sector will also need to update various processes and systems and a wide range of supporting collateral. Undertaking this will require a significant commitment of resources (internal and external) and sufficient time will need to be provided to enable this to be undertaken carefully and efficiently.

Specifically, we envisage that insurers will need to undertake a wide range of change activities including the following:

- Review and update all consumer and commercial insurance policy wordings (and standard endorsements etc.) in response to changes to the duty of disclosure, review and update all standard form policy wordings in relation to the changes and extension of the unfair contract terms regime, and review and update consumer insurance policy wordings in response to the requirement for them to be written and presented clearly.
 - This will entail significant internal resources across relevant divisions (e.g. product, legal, projects etc.) and likely external legal input and other project resources.
 - The numbers of insurance products to be reviewed is significant - IAG is anticipating needing to review and update approximately 500 insurance products at the time the Bill is likely to come into effect.
 - Managing a process involving change to hundreds of insurance products is a significant project management exercise and it will be necessary to phase the review of groups of contracts to make this workable.
- Review and update all collateral related to policies (application forms, renewal documentation, website content).
- Consider whether it is necessary to make wider changes to products, or to reprice them, as a consequence of the changes required by regulation.
- Make changes to distribution processes for the various products (e.g., questions asked of consumers) and claims handling processes (e.g., to reflect for example the replacement of the duty of disclosure) and put in place processes and training to support these.
- Work with intermediaries on updating processes, systems and arrangements as relevant.
- Develop, deploy and test the changes made to electronic systems.
- Develop and deploy communications to customers and intermediaries in relation to the changes being made to products and processes for the various kinds of insurance products.

While it is common for insurers to make changes to an insurance product or group of products for regulatory or business reasons, having to review and update all their insurance products at the same time is a fundamentally greater scale of activity. In order to undertake a change programme of this scale efficiently, with appropriate quality control and in a way that produces policy wordings that are easily read it will be necessary to put in place robust project management, governance and to deploy significant resources to undertake the work. The work will need to take place in a sequence from initial discovery and scoping through to delivery and the embedding of changes. To make it workable it will be necessary to break the process up so that groups of policies are reviewed and updated in phases.

A high-level outline of the process required to review and update policy wordings is set out in the following diagram by way of example. Reviewing and updating the policy wordings is the single most significant aspect of the required changes and what would have the longest required duration, with other activities happening in parallel and potentially subsequently (e.g., customer communications).

Project Sequence



For insurance, regulated changes that require changes to insurance policy wordings can only be implemented smoothly and efficiently for new business and renewals of contracts from a specified date (i.e., not applied to existing contracts at the same time that were entered on a different legal basis). Changes are then effectively rolled out over the course of a year as existing contracts are renewed and new ones are entered. While it is possible to make some changes to a contract mid-term, that would require the deployment of blanket endorsements, which would add further disruption for policyholders and additional work for insurers and intermediaries because the underlying change work would still be required as well.

It should be noted that this change activity will also be taking place in a period where there are expected to be other significant regulatory changes for the insurance sector happening (e.g., changes to the EQC regime through the Natural Hazards Insurance Bill, implantation of the new conduct of financial institutions regime, changes to the FENZ levy, new climate change disclosure regime and implementation of changes to the IPSA regime and solvency standards). It should also be recognised that with all insurers undertaking this change activity at the same time this will likely lead to pressure on both internal resources and specialist external resources (e.g., insurance lawyers).

At least 2 years will be required for implementation and a range of factors will need to be considered in determining the appropriate timing for commencement

In looking at the total time required to undertake the change programme required by the Bill, consideration also needs to be given to the following:

- Renewals for existing business go out to customers up to 3 months in advance of the renewals (in the case of intermediated business) and so insurers effectively have to complete the change programme 3 months before any changes come into effect (i.e., a 24-month period only gives insurers 21 months to actually undertake the required product change work).
- Insurers will have other change processes underway or already planned to respond to the other regulatory changes noted above, to align with international reinsurance requirements, or to improve their customer offerings. It is desirable to explore synergies between the various change programmes, however this can be challenging for regulatory work due to uncertainties with timing

and the passage of legislation.

- Insurers can only allocate material resources and make the investments necessary to undertake a regulatory change implementation project once they know specifically what the changes will be (i.e., legislation passed, regulations made) and when they will come into effect.

Given the scale of change required and having regard to the above factors we consider that a period of at least 2 years will be necessary to effect the changes required as a result of the provisions in the Bill. This estimate is based on consideration of previous work in New Zealand and the work required to implement similar regulatory changes in Australia.

The period for implementation would start once the legislation was passed and any supporting regulations etc. had been made. This is because insurers would need to understand all the regulatory changes before commencing the review and update of policy wordings and to make all the other required changes. The indicated 24-month period outlines the scale of the work required, however, insurers will only be in a position to more precisely evaluate the impact and required timing once the changes are finalised and the potential timing sufficiently clear to enable the impacts of competing challenges (regulatory or otherwise) to be evaluated.

We therefore support the approach in the Bill of providing for the date/s for commencement to be able to be determined by Order in Council and for this to be up to 3 years after the passage of the Bill. In order to determine what the appropriate specific date/s should be, further consultation will be required with the insurance sector closer to the time of the legislation being passed. At that point specific regard can be given to potential dates for commencement that would provide sufficient time for the insurance sector (i.e., at least 24 months) and how these might fit with implementation of other regulatory change requirements, other pressures facing the sector at that time (e.g., natural disaster events) and what might be an appropriate time of year (e.g., potentially avoiding periods that are particularly busy for insurers and/or insurance brokers).

We note that application of these various factors might suggest alignment with the timing of other regulatory changes would be appropriate to enable synergies (i.e., change insurance products only once rather than twice), or alternatively that sufficient separation of them should be allowed changes to be made sequentially without any overlap. For example, to have two different regulatory changes impacting the same products at different times within a single yearly cycle of renewal would be particularly problematic.

Thank you again for the opportunity to comment on the exposure draft of the Insurance Contracts Bill. We would welcome further opportunities to engage with MBIE in relation to the future progress of the Bill and later in relation to the implementation of the changes provided in it.

Yours sincerely

Privacy of natural persons

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