

Opening Remarks

2015 ICA Regulatory Update

Mr Andy Cornish
President, Insurance Council of Australia

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Hilton Sydney

CHECK AGAINST DELIVERY

*(Andy will be introduced by MC **Michael Pascoe**)*

- Thank you Michael. Good Morning everyone, and welcome to the Insurance Council's Annual Regulatory Update seminar.
- Before we begin the proceedings, I would like to acknowledge the traditional custodians of the land on which we meet – the Gadigal people of the Eora Nation.
- I also pay respect to Eora elders past and present, and extend that respect to other Aboriginal and Torres Strait people here today.
- I am delighted to welcome the new Assistant Treasurer the Hon. Josh Frydenberg to our seminar.
- I think this is his first time addressing insurers and I look forward to hearing his perspective that was foreshadowed a little bit in The Australian this morning, some of you may have had a chance to see that.

- Immediately after morning tea we will hear from Shadow Treasurer Chris Bowen. Chris has been a regular speaker at our Updates both as a Minister and in Opposition. And I know that we can anticipate some forthright views.
- And it's also great to have Peter Kell from ASIC and Ian Laughlin from APRA coming back to outline the regulatory outlook for us
- I also welcome Craig Dunn, who played a key role in the recent Financial System Inquiry. He's going to address our final session this afternoon and it will be worth the wait.
- So, today's an important day for many reasons.
- Not least of which is that in the past week both Queensland and the Northern Territory have experienced yet another series of natural disasters with cyclones running through both territories
- So far the industry has received more than 13,500 claims, including more than 300 for total losses of homes, and reserved losses at the moment of more than \$83.5 million. But we know that is going to rise.
- Cyclone Lam has devastated communities in eastern Arnhem land.
- Cyclone Marcia badly damaged or destroyed large parts of Yeppoon, Rockhampton and neighbouring towns, and communities there and in the Northern Territory will be affected for years to come.
- Within hours of the cyclone making landfall the Insurance Council had declared a catastrophe, and insurers stepped into their well-practised disaster response to ease the stress and pressure on their customers.

- Recovery teams were marshalled. Assessors were ready to move in.
- The Insurance Council has been working with state and local governments, and the emergency services, to address any issues.
- The industry is now prioritising those worst affected. It is allocating resources to repair and rebuild, and is playing its essential role in helping the region recover.
- Sadly, in almost every case, the properties that have suffered the most damage are those that were not built to modern building standards. This is a generational issue that needs to be addressed.
- It's an unfortunate fact of this business that insurers label this the disaster season.
- We must anticipate a range of natural disasters, and we make sure we have the resources to help our customers quickly and efficiently.
- It's at this time that the partnerships we have built over many years prove their value to our customers.
- The industry is a trusted contributor to government disaster response and recovery efforts.
- Though intense, these cyclones are by no means the largest natural disasters to assault Queensland and other territories and states in the past four years.
- Cyclone Yasi and the floods of 2011 caused a combined \$3.8 billion in losses. Last year's Brisbane hailstorm totalled \$1.1 billion.

- And Cyclone Oswald, which hit Queensland as a tropical low, caused insurance losses of nearly \$1 billion in Queensland and a further \$121 million in New South Wales.
- This means that in the past four years, the insurance industry has delivered on its promise.
- We have repaired or rebuilt hundreds of thousands of properties.
- We have fixed or replaced tens of thousands of cars, motorcycles, vans, trucks and boats. We have kept thousands of small businesses afloat during tough times.
- We have helped communities recover. And we have helped sustain Australia's economy.
- However, we are now juggling a range of issues that require focus, expertise, rationality and a great deal of common sense from all involved.
- Though Australia has had a sharp decline in premium growth in the past few months, most notably in Queensland, the industry is experiencing a renewed focus on its products and prices in areas prone to natural disasters.
- Many households in these regions are struggling with the cost of living, including the cost of insurance.
- And many of us agree the Federal Government's broad concerns about affordability can be justified.

- The industry has been working with the government – and various agencies and regulators – on a range of sensible, fact-driven solutions.
- We have been helping governments and communities to better understand the scope and complexity of the problem and provide appropriate guidance. This dialogue is ongoing.
- The industry has its own concerns, of course. There is no silver bullet, no magic spell, no quick fix, though removing state taxes on insurance would provide rapid relief.
- Any measures that are designed to change prices by influencing or intervening in a properly functioning risk-based market need to be carefully considered for their impact on communities and the insurance sector in the short, medium and long term – and of course their impact on the government’s finances.
- Much work has already been done.
- In the past year insurers have been enthusiastic contributors to various reviews and reports.
- Overall, we are really satisfied and pleased with the outcomes of:
 - The Financial System Inquiry
 - The Competition Policy Review
 - The Productivity Commission Inquiry into Natural Disaster Funding Arrangements

- o And the Australian Government Actuary's reports on strata title and home and contents insurance prices in North Queensland.
- The industry was encouraged by the FSI's emphasis on the importance of investing in mitigation to reduce the impact of natural disasters on vulnerable communities, and reduce the cost to taxpayers of post-disaster recovery.
- The industry also found support in the Australian Government Actuary's report into home and contents insurance in North Queensland, and the previous report into strata insurance.
- The report said cyclone risk was driving premiums in the region, and this risk was the main reason prices were higher in North Queensland than east coast capital cities.
- It said that insurers were paying out \$1.40 for every \$1.00 they received in premiums
- These reports reinforce the need for governments at all levels and of both ends of the political spectrum to work together, and invest now in mitigation and community resilience, to help these disaster-prone regions.
- Urgent work is also needed to vastly improve the quality of many buildings to help them withstand current and projected extreme weather.
- Better buildings means lower risk, and lower premiums.
- Mitigation and resilience, however, require significant financial and political investment.

- The Insurance Council is pleased recent mitigation works, most notably in Queensland towns affected by the 2011 floods, will now protect communities for many generations. This infrastructure also has a direct impact on premiums.
- We are seeing considerable success through the data-sharing Memorandum of Understanding with Queensland.
- Insurers now have better information to help them fine-tune their premiums and, in many cases, slash prices for customers in places such as Port Douglas.
- Several Insurance Council programs are tackling the impacts of extreme weather and improving the availability of hazard data to help understand risk and develop a more sustainable response to managing catastrophes.
- These include the ICA Data Globe, the Property Resilience and Exposure Program, and the JCU Engineering Inspection Scheme for strata-title properties in North Queensland.
- One member company has introduced its own strata inspection scheme, which is having an immediate impact.
- In the past year the Insurance Council has introduced the revised General Insurance Code of Practice, which has stronger and more detailed obligations on Code signatories to provide assistance to consumers in financial difficulty.
- The Code has clear guidelines and timeframes on insurance claims and complaints processes for customers

- It also introduces a new governance framework to ensure compliance is effectively monitored and enforced.
- This is good for the industry and is good for our customers.
- The industry thrives in a spirit of cooperation, and is looking forward to reinforcing its relationship with the Federal Government through Minister Frydenberg.
- We are listening, we are responding and in many cases we are leading by example.
- Several important issues are being discussed at the moment that may have ramifications for consumers and the industry.
- The first is last October's announcement that Unauthorised Foreign Insurers would be encouraged to enter Australia's tightly regulated household insurance market on the basis of price.
- The Government also announced ASIC would develop an online service that would enable North Queensland consumers to compare a sample of home and contents policies on price, features and claims handling.
- The industry has already expressed its concern about these steps, and is working to help ensure that consumers and the industry are not adversely affected.
- I will now turn now to disclosure which is I think linked to the issue of afford ability in many respects and is one of the other hot topics that we are going to be discussing today

- There are clearly shortcomings in the current disclosure and advice regime.
- I'm sure we would all like to see the end of the 80-page PDS. And I am sure that many consumers would say they haven't read it at length.
- And most direct insurers find their staff tip-toeing just to keep on the right side of the advice definitions.
- In addition, the traditional idea of disclosure – the things that insurers and other financial services providers should tell consumers about their products – is being challenged.
- We are seeing a broader concept of what insurers should be communicating to their customers being floated.
- Not only did the Financial System Inquiry urge insurers to continue to work on reducing complexity and improving consumer understanding, it made specific recommendations about providing better information to consumers about rebuilding costs and building codes to reduce underinsurance.
- Our industry needs to think differently about how we provide information that consumers will find useful.
- Digital technology has opened up a whole world of opportunity to be more inventive in communicating with our customers.
- We can look to other industries for inspiration on how to comply with regulation in a way that isn't boring and isn't legalistic.

- Think about how Air New Zealand has turned the mandatory safety presentation into something that my family and I actually want to watch. And I think insurers can be bolder and braver in this respect
- But we also need to examine whether there needs to be regulatory change to give us greater comfort and flexibility in being innovative.
- You'll hear more on this after lunch.
- Finally, I thank all our guest speakers sitting on our plenary and breakout panels.
- In the interests of disclosure I will be chairing Breakout Session 3 this afternoon, which I thoroughly recommend for obvious reasons
- I'm pleased the ICA has again together an exciting the thought-provoking program and thank Rob Whelan and his team for organising a great day
- We have provided plenty of time for networking, so make the most of our morning tea break, lunch and the post-seminar drinks in the foyer after the final plenary.
- And I hope to talk to as many of you as I can during the day.

*(ANDY to introduce Assistant Treasurer **Josh Frydenberg**)*

- I would now like to welcome Assistant Treasurer Josh Frydenberg to the stage.