

**Keynote speech to the Australian Insurance Summit
Rob Whelan, CEO, Insurance Council of Australia
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INTRODUCTION

Good morning to you all and thanks to AB&F for the opportunity to speak to you today.

I'm honoured to have been invited to the summit today to give my perspective on the status of the general insurance industry, and what the future may hold. While my remarks are primarily related to the GI sector I believe they have some resonance for other parts of financial services.

In preparing this speech I was reflecting on the differences between Australia and other advanced economies. The insurance industry here has been able to achieve many things that our overseas colleagues find hard to imagine.

We have been able to defend risk-based pricing in the face of threats of market interference and potential intervention.

Though progress is slow, governments are finally listening to the evidence on the need for investing in nation-building mitigation and community resilience projects.

I hope the global experience of insurance pools for extreme weather risks is being seen by our governments as the inadequate mechanism they are.

This was clearly demonstrated by the impact in the US following a series of devastating hurricanes over the past few weeks, where these taxpayer-funded pools are running tens of billions of dollars in the red, fuelled by rampant inappropriate development, yet still fail to provide adequate cover most property owners.

Here in Australia we have been able to respond to storms and major events that, elsewhere, might have crippled the free market for our products and resulted in the heavy hand of government intervention.

So in contemplating the state of our industry and its prospects for the future I have tried to summarise my thoughts into three key subject areas. Briefly stated they are:

1. Context is important – it's a different world
2. A Stitch in time can change minds
3. You can't hurry love

SECTION 1 – Context is important:

It's axiomatic that we live in interesting and uncertain times - the fact is that this industry and this country are in a state of transition.

The world is changing and we must adapt.

We have what the US military terms a VUCA environment– Volatile, Uncertain, Complex and full of Ambiguity.

We have the empowered and distrustful consumer, who has expectations of immediacy and is prepared to highlight through social and traditional media any short comings of their suppliers.

We see this in heightened expectations on claims acceptance and on responsiveness to claims.

The days of taking many weeks or even months to decide on a claim are long over. Consumers now have the expectation that their claim is more important than others, that their call will be answered quickly, that their home will be repaired faster than they would have been able to organise themselves.

Big data and powerful data analytics is benefiting the industry, but it also creates large expectations from consumers and other stakeholders.

In many ways the industry is dealing with external forces over which it has little or no control.

It is under greater parliamentary scrutiny and political game playing than at any time in history.

This decade alone the industry has been the focus of numerous federal and state government inquiries, or have been required to provide its input.

Some of you may recall the number of high-level inquiries that followed the floods of 2010-11.

These have been followed by a plethora of other inquiries including:

- Northern Australia and its insurance premiums – from the Senate and the Australian Government Actuary
- Bushfires and other natural disasters
- institutionalised child abuse
- Automated road vehicles and drones
- Non-compliant building products
- Customer service
- Taxation
- Smash repairs
- And even the financial system itself

And if these are not enough, if there is a change of government at the next Federal Election we can expect a Royal Commission into the financial sector.

Undoubtedly, insurance will be swept up in it for several years.

And if you think the regulators are standing by, passively monitoring us, then you're very much mistaken.

I've never seen regulators so active and assertive – they're putting the financial services sector under much greater scrutiny than ever before, and with it comes a level of activism.

- Legislation is expected before the end of the year that will give ASIC greater powers over product design and distribution
- ASIC is already cracking down on products that it sees as having poor value for customers
- A Treasury review is looking at strengthening ASIC's enforcement powers

- The Ramsay review of Australia's financial system looked at external dispute resolution and complaints framework, including the need for a last -resort compensation scheme
- A Treasury review is examining strengthening protections for whistle-blowers
- Regulators here and overseas are talking openly about conduct risk in the sector
- APRA will embed specialist teams into banks and other financial services companies to conduct "risk culture" reviews
- APRA has been making public statements about insurance and climate change risk
- And APRA has said the Banking Executive Accountability Regime (BEAR) – currently limited to banking – could be extended to other sectors

At the macro level the Australian economy is in transition while globally major shifts in economic power are having unprecedented financial and geopolitical impact.

Australia is less reliant on fossil fuel and mineral exports, but with this comes the casualisation of the workforce and more focus on the shared economy and utilising personal assets for income.

Australia's population is ageing, while we are also becoming much more aware of increasing inequality, stagnant wages growth and high housing costs.

Business overall and the financial services sector is struggling to deal with broad negative perceptions- the banks in particular are under immense pressure.

And consumers have higher perceptions and expectations of service delivery.

This is a global issue within developed economies – a hangover from the GFC.

The adoption of technologies is changing the narrative of businesses, governments and the workforce

Low interest rates and stagnant investment returns is hurting insurers' capacity to generate non-premium income

Consequently premium growth, adept underwriting and cost management are the levers most available to insurers to ensure long term profitability

Challenger brands (and potential insurtechs) are having an impact on bigger players through establishing a different business model – more nimble, lower cost base, fewer legacy issues

Meanwhile traditional emphasis on premiums and claims control has a direct impact on community and government perceptions of affordability and fairness.

All of this is disruption.

Nevertheless the expectation and the reality is that insurance will continue to play a crucial role in providing cost-effective high-value risk transfer to the community and the economy.

But the community perception is that we cannot be trusted to do all this.

- How can the industry deal with all these challenges and avoid being the rabbit in the headlights?

The trick is to: Manage the unavoidable and avoid the unmanageable
(Annon quote)

SECTION 2: A Stitch in time

Effective response to a range of market pressures has seen a series of innovations by the industry in the recent past that has changed its product and service offer and progressively impacted on consumer, regulator and government perceptions of the industry.

Product expectations have changed and continue to change. Much of the focus in the industry is now on providing demonstrable value for the customer, and making the entire process of insurance faster, better, easier and simpler.

Broader more inclusive risk cover is also being provided:

A decade ago only 3 per cent of household insurance policies had flood cover. Now about 96 per cent of policies purchased include flood, and it's available for all households and small businesses.

The industry is now having its voice heard on climate change and on mitigating the impact of extreme weather with flow on effects on premiums.

The industry is working on how to eliminate blanket exclusions on mental health, and provide cover to the most vulnerable in our community.

Insurers are working hard on how best to grapple with the vexed areas of risk in cyber- crime, terrorism and autonomous vehicles.

It is inarguable that the industry is the essential mechanism for transfer of risk that enables the economy and society to operate smoothly.

Year after year the industry pours billions into recovery and rebuilding of decimated communities and still the evidence is that the community doesn't think we add value nor do they trust us.

This year's Edelman Trust Barometer offers some key insights that we are part of a bigger trend:

- 59 per cent of Australians believe the system is failing – they have a sense of injustice, a lack of hope and confidence, and a desire for change

- Trust in business has fallen to 48 per cent – in media to 32 per cent, and to 37 per cent for government.
- Financial services was the least trusted industry
- Unfortunately, the echo chamber is all too strong – 55 per cent do not listen to people or organisations with whom they often disagree
- And the truth is not always having the impact we would like it to – they're more likely to believe a search engine than a human editor, and more than a third of Australians would support a politician they trust to make things better, even if they exaggerated the truth.
- However, there is some good news. 77 per cent of Australians agree companies can take actions that improve social and economic conditions while also improve profits

So how is the General Insurance sector dealing with this lack of trust?

Section 3: You can't Hurry Love

The truth is product innovation and good PR are not enough. Changes in perception happen over long periods of time and are influenced by experience and word of mouth.

To future proof the industry we must look to our core behaviours, values and culture. Actions and deeds count.

The industry is coming to grips with conduct and reputational risk in a variety of ways

For example the industry has a much better understanding of the damaging impact on industry reputation of outmoded products, poor decisions, and perceptions of poor customer outcomes.

Better community engagement and communication to promote the vital service the industry provides is crucial to building community trust.

Through projects such as the Insurance Council's Understand Insurance initiative, through community outreach forums and meetings, through effective post-disaster communications and engagement, through political and regulator engagement, and of course through mainstream

and social media channels the industry is making a concerted effort to get our message across.

The role of the GI Code of Practice has never been more important in restoring trust.

This year the ICA released the Terms of Reference for the review of the GI Code of Practice.

The ICA received extensive and detailed submissions from stakeholders on a variety of issues and an interim report will be issued soon to gather further input.

This is a comprehensive review and deals with a wide variety of issues confronting the industry.

In addition to the Code Review process, the ICA and its members are committed to maintaining constructive and open dialogue with consumer advocates to ensure that we clearly understand the matters of most concern to consumers.

For this reason, the Insurance Council and consumer representatives have established the Consumer Liaison Forum.

The key objective of this forum is to encourage open discussion between the general insurance industry and consumer representatives, and to foster the appropriate development of insurer and industry practices that are supportive of higher standards and better outcomes for consumers.

In response to issues raised by the Forum, my organisation has commenced several programs of work that seek to improve how industry treats vulnerable customers.

In particular, we are looking closely at how we can better respond to instances of family violence, cover for those with mental illness and provisions for those with financial hardship.

Many of the issues raised will also be incorporated into the Code Review process.

By listening and working closely with consumer advocates, the Insurance Council is looking ensure that the GI Code remains the benchmark for industry self-regulation in Australia.

A further important and related area of activity is the work being done on Disclosure.

For many years the industry has laboured with a cumbersome and overly legalistic method of informing customers of their cover.

Lack of comprehension of product features has often lead to poor consumer outcomes and diminution of trust in the industry for failing to meet expectations.

To remedy this the ICA undertook a project to map out a more effective disclosure regime.

The ICA has conducted research to better understand how consumers actually go about purchasing decisions.

The findings have been used to inform a series of workshops within the industry to identify changes that would have the most impact.

The ideas generated are ambitious, and look into not just how information is provided to consumers but also the implications of product design on consumer engagement and comprehension.

There is a desire to move away from the traditional view of disclosure as merely the provision of information to more innovative ways of anticipating consumer needs and the provision of more tailored information.

The outcomes from this work will form a package of proposals that will be presented to government and regulators to approve.

Principles of effective disclosure will also be incorporated in the revised Code of Practice.

These are but a few of the initiatives this industry is undertaking to meet the challenges of our disrupted economy.

It's obvious the old ways are coming under pressure but the signs have been there for some time.

- from Apple challenging IBM

- the extraordinary growth of online content providers Facebook and Netflix
- Service platforms such as Uber, Air BnB and Air Tasker are shaking up sectors that have changed little for generations.

Disruption finds its place where there are clear inadequacies from a customer perspective from a product or from service-delivery.

For any industry the danger point for major disruption exists is where growth in industry profits intersects with declining customer satisfaction.

We must avoid this dangerous intersection.

This is the ongoing challenge for the insurance sector and it's one we are embracing.

We at the ICA see a positive and dynamic future as insurers resolve to accept these challenges clearly focussed on driving positive consumer outcomes.

Change is inevitable and often unpredictable but the outcomes can be up to us.

Thank You.