Good morning. Thank you very much for that kind welcome and thank you for the welcome and the invitation to be here this morning.

The Insurance Council of Australia has an important job as the leader, advocate, and educator in the general insurance industry. You are the ones bringing the voice and vision to an industry that’s vital to our economy and vital to our community. As a result though, you have a special obligation to provide responsible leadership to help tackle emerging challenges and you are uniquely placed to bring forward solutions.

So it’s a great pleasure for me to be here to join you for your Annual Forum – a first for me but a time-honoured tradition for you in this room. It’s a great chance to share ideas, information and expertise, within and beyond your industry.

It’s also a chance for me to give you an update on what the Government is doing on a range of topics relevant to you, and of importance to all Australians.

So today I would like to touch on the significance of insurance to the lives and well-being of all Australians, the Government’s priorities for the sector and some of the challenges. And I’ll talk through some of the findings of the Northern Australia Insurance Premiums Taskforce final report that I’m releasing today.

**Importance of Insurance**

Insurance is of critical importance to Australians and a healthy financial system, because it cushions individuals and businesses from loss, which in turn creates an environment where people can manage their risks and attract and make investments.

Australian businesses and consumers spend around $35 billion per year on general insurance premiums which provide cover for such things as homes, contents and motor vehicles. For the economy in general, Australia’s insurers are also important institutional investors, holding assets of around $119 billion.
The financial system, including the insurance sector, employs about 400,000 people. Its output has increased from $41 billion in 1997 to $139 billion over the last year.

That’s not the only thing that’s changed in the financial system since the last inquiry, the Wallis Inquiry in 1997. David Murray’s Financial System Inquiry, which the Government responded to last year, was a timely look at how the system has progressed since then and whether it is fit for purpose in the 21st century.

The Government’s response to the Inquiry is our blueprint for a fit for purpose and future financial system. It covers over 48 measures to enhance the system and to encourage Australians to be confident it’s the best in the world.

In the Insurance Council’s submission to the Inquiry, the issue of helping consumers to make better decisions when they purchase insurance was raised. The Inquiry agreed and recommended improved guidance – things like tools and calculators – as well as improved disclosure.

On this recommendation, the Government supports industry-led initiatives to increase guidance and disclosure in general insurance. And I’d like to acknowledge the efforts of the ICA’s effective disclosure taskforce. I note the Taskforce’s recommendations have been endorsed by the ICA board. And the Government looks forward to seeing the outcomes of that important work.

The Murray Inquiry’s Final Report pointed to home insurance in particular as an area that needed improvement. The evidence shows that for a number of reasons homes and contents are very often not insured or are underinsured. Twenty nine per cent of homeowners and sixty seven per cent of renters are without any form of contents insurance in Australia. People need guidance to make sure their most valuable assets are properly insured, particularly in understanding the amount of cover that is needed, and insurers need to be innovative and responsive in providing products to meet consumers’ needs and consumers’ demands.

**Emerging risks**

And as the world continues to change and develop, the insurance industry needs to be on the front foot to adapt and to meet other challenges - and opportunities - that it faces.

Swiss Re Group’s SONAR report last May identified a number of challenges that are emerging globally for the industry.

One is the sharing economy, as was identified by Andy just before, which is estimated to be worth around $330 billion US dollars worldwide by 2025.¹ Uber and AirBnB are the obvious examples of this new economy, but there are many others, including peer-to-peer lending and peer-to-peer insurance. These ventures mean a move away from traditional models of funding and distribution and a challenge to existing structures in some areas.

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There are also cyber risks posed by new technology. Twice in January we saw cyber attacks temporarily shut down internet banking at a large British bank. For infrastructure businesses, too, like water, power and telecommunications, cyber-attacks pose a threat.

For insurers there are three main challenges in this space. One is the lack of actuarial analysis to do proper pricing and reserving; the second is the evolving nature of the regulatory and legal environment; and the third is the rapid transition of legacy systems to more advanced and open-source technology.

New cyber perils are arising too from the ‘Internet of Things’ where devices are connected to the internet and to each other and can collect and exchange data.

This could include anything from phones to fridges or washing machines to wearable devices. The Swiss Re report estimates that by 2025, a family of four could have more than 100 connected devices between them. And individuals may be in daily contact with 3000–5000 connected things.

This increased connectivity will raise questions about network and data security, resilience and long-term maintenance and software updates. Losses could occur from system malfunctions as well as malicious attacks from hackers and criminals. It’s been reported, for instance, that the majority of cars that are stolen in France are targeted using electronic hacking.

Car insurance, as we all know, is as old as the motor industry itself – around a century. And it’s about to be transformed by the advent of driverless cars. And while this could limit accidents and collisions through the removal of human error what happens if this automation fails? Who’s liable if there is an accident?

This and many other questions will test the insurance industry if this vision becomes the new reality.

Digital technology – and the sharing economy it enables – are changes that bring both risks and opportunities. There are benefits to be gained if we are on the front foot and open to them.

**Natural disasters and Northern Australia home insurance affordability**

Other kinds of risk though are not bearers of opportunity – simply challenges that must be faced as courageously and resiliently as we can. For example, the prevalence and severity of natural disasters around the world –that include cyclones, fires, earthquakes and volcanoes.

Some analysts have pointed out that the risk is growing as more wealth is concentrated in parts of the world more prone to catastrophes. That also means more appetite for insurance. If there is any opportunity here, surely it’s the opportunity to get better at risk mitigation, and to have in place the best possible systems for rapid response and rebuilding – both things that involve insurance.

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2 Bloomberg reported in Insurance Business on 5 Feb
3 A.M. Best Ratings Agency reported in Insurance Business 10 February 2016
4 Susan Elias, March, reported in Insurance Business, 5 Feb 2016
This brings me closer to home. Today I’m releasing the final report of the Northern Australia Insurance Premiums Taskforce.

The Government set up the Taskforce in May last year, in response to concerns that residents of North Queensland, the northern parts of Western Australia, and the Northern Territory whose insurance premiums are affected by the risk of cyclones, have seen an increase in their premiums.

And those concerns are not hard to understand. In the eight years to 2013, home and contents insurance premiums increased by 80 per cent for North Queenslanders, compared to around 45 per cent in Brisbane and around 12 per cent in Sydney and Melbourne over the same time. Average premiums in North Queensland are around one-and-a-half times those of Brisbane and two-and-a-half times of those of Sydney and Melbourne.

The Taskforce found that insurers are now increasingly pricing premiums to align more closely with the risk of damage to individual properties. This change is not the result of any change in the behaviour of households but has been driven by a number of factors including the growth in the use of technology, competition in insurance markets and reassessments of the risk of cyclone damage.

Under its terms of reference, the Taskforce was asked to consider the potential reduction in the cost of consumer premiums and the feasibility of using the Government balance sheet to provide support to:

- A cyclone mutual: which would offer cover directly to households for cyclone damage for home, building and strata complexes; or
- A cyclone reinsurer, which would provide reinsurance to private insurers for the cyclone risk in their portfolio.

In addition to undertaking a thorough evaluation of the above options, the Taskforce was asked to consider any other options put forward by stakeholders during consultation.

The Taskforce looked very closely at the scope for Government intervention in this market, as well as the risk to the Government balance sheet. Using extensive modelling to assess the probability of these weather events, the Taskforce predicts that Government support for a mutual or a reinsurance pool could be very costly for the taxpayer.

The Taskforce found that either of these options would involve substantial cost and risk to the Government and the taxpayers. For example, the Taskforce calculated that for a scheme that would on average lower premiums by 10 to 15 per cent there is a 10 to 20 per cent chance that it would cost the Government more than $2 billion over 10 years and a 5 to 10 per cent chance the cost would be more than $5 billion.

Another factor the Taskforce examined was the impact on insurance markets, particularly on competition.
The Taskforce found that if a cyclone mutual is established, it would likely crowd out private insurers from offering cyclone insurance.

The Government also asked the Taskforce to consider how the role of the Government could be reduced if it did seek to intervene in the market, in particular through a mutual or reinsurance pool. Experience overseas shows that it is very difficult for a government to withdraw from any arrangement that subsidise insurance premiums. Furthermore, if the Government was to withdraw, any potential reduction in premiums would likely be reversed unless households had undertaken mitigation during this time.

It is worth noting that Government intervened in different circumstances in the insurance market to establish the terrorism reinsurance scheme in Australia in 2003.

The circumstances surrounding the establishment of that scheme was that there was no capacity in the private market to provide cover for damage in the event of a terrorist attack; in essence, a classic case of market failure.

The Government continues to be involved in terrorism insurance due to the inability of the private market to provide adequate cover, and the Australian Reinsurance Pool Corporation’s pricing is on commercial basis.

The Taskforce’s report notes that the only way to get sustainably lower premiums is by reducing the vulnerability of property to the risk of damage. So it’s essential to encourage mitigation.

Mitigation spending is something that is not always valued until there is a dire need for it and it is something that governments and households often put aside in favour of funding more immediately useful assets.

The report puts forward a number of measures to promote mitigation, but it highlights that this is a complex issue and requires action by property owners and insurance companies to bring about change. It will also require action by, and cooperation between, other levels of government in the affected states and the Northern Territory.

State governments can contribute by strengthening building standards to reduce the prospect of cyclone damage being inflicted on buildings. For local governments, undertaking public works on such things as water management and flood protection infrastructure would assist in reducing cyclone related flood damage to property.

Homeowners can also contribute to mitigation by making some basic changes, often at little cost. Small actions such as securing the garden shed, putting away the shade sail and storing the outdoor furniture where it won’t become a flying missile in a storm can all contribute to reducing damage.

The insurers can contribute to reducing the cost of premiums by recognising the reduction in risk from this mitigation work. They can also look at the design of policies to allow a greater excess for cyclone damage, so that the insured is being rewarded for assuming more of the cyclone risk while having a more limited excess for other events such as fire and theft.
For some risks, such as theft – the insurance industry has been able to tailor products to support mitigation by households, for example, by rewarding those who install better locks and back-to-base alarms. My sense is that the industry has been slower to make the same effort in respect of cyclone risks, and it needs to be more active.

Yesterday we saw a step forward with the announcement of the new Suncorp Insurance Cyclone Resilience Benefit. Tangible products that reduce premiums need to be rolled out more generally and more quickly.

Insurance companies estimate that mitigation actions, particularly improving building resilience, could reduce premiums for some properties by up to 20 per cent.

The Government is continuing to carefully consider the Taskforce’s report and expects to respond in the coming months. In releasing this report today, I would like to thank the Taskforce for their hard work, and in particular Mike Callahan who led that work. And also the insurance industry, consumer and government representatives for their contributions to date as well. We will continue to consult and seek your assistance as well as we develop our response.

In deciding the best course of action, we will consider:

- the likely cost and risk to the Government;
- the impact on markets, particularly on competition;
- the implications for other kinds of natural disasters;
- how easily the Government can exit the market; and
- how effective any measures will be in actually lowering premiums.

An important underlying element in achieving a sustainable solution will be to get the incentives right for all players – government (state, local, federal), the industry, and households. The implications for how other natural disaster risks – such as bushfires and hail – are handled also need to be considered.

**North Queensland home insurance comparison website**

Staying in the North, the Government is delivering on the initiatives announced in October 2014, to tackle the high cost of insurance in North Queensland.

In March last year, ASIC announced the launch of the North Queensland home insurance comparison website, which allows consumers to compare products and premiums for nearly 200 North Queensland locations. ASIC keeps this website up-to-date on price and policy changes. The website emphasises the importance of policy features – not just the premium – that are appropriate to a consumer’s circumstances.

We are engaging with the Queensland Government on developing an engineering assessment program for strata properties in North Queensland. This is about improving the information that is
available on a building’s susceptibility to weather damage, and ways to make property more resilient. And we are funding flood mitigation work in Roma and Ipswich to reduce the risk of flood damage.

Much of this work is about making sure there are adequate levels of insurance in the community. The industry and the Government both have a role in getting the preconditions right for that. And it’s important because insurance not only helps people and businesses get back on their feet after losses, it also contributes crucially to our financial system.

**State and territory taxes**

Governments can, however, put barriers in the way of people insuring. Insurance taxes are levied by the states and territories. All states impose stamp duties on general insurance premiums, while some states impose additional levies—for example, fire service levies. Insurance taxes mean that individuals and businesses must pay more to achieve the same risk reduction.

This is one of the reasons people may choose to underinsure their homes. Insurance taxes are among the most inefficient taxes in Australia. They increase the cost of insurance to consumers and place a large burden on policyholders.

For example, in Queensland, the insurance stamp duty rate increased from seven-point-five per cent to nine per cent of a premium paid, from 1 August 2013. In the Northern Territory and Western Australian it is ten per cent of the premium paid.

Where households are sensitive to price increases, this may lead to under-insurance or people not insuring at all.

More broadly on the question of taxes, let me reiterate what you have heard before – the Government is committed to supporting our economy and providing real opportunities for Australians who want to work, save and invest.

The Government’s objective is to achieve a better tax system that will set Australia up for the future, supporting higher economic growth, job creation, and better living standards for all Australians.

We recognise that our tax system needs to serve a modern economy: where growth is happening in new sectors and markets; where digital technology is daily transforming our lives and businesses; where the global economy is more connected than it has ever been. We need a tax system that allows us to manage the risks and embrace the opportunities that those changes bring.

**Conclusion**

So in conclusion, it is clear that the scope of your work is incredibly broad. From cyclones to cyber risks; from technology to terrorism.

Looking over the horizon, there is revolutionary change coming our way, and your industry will need to adapt and innovate as it has in the past to deliver better outcomes for Australians.
You’re not alone. Our whole economy, our community, is facing the same challenges. The Turnbull Government wants Australia to grasp with both hands the benefits change brings, and to harness the innovation that change inspires.

I look forward to hearing more from you after your deliberations today, and to working with you in the future days, months and years ahead. Thank you.