

6 September 2019

The Hon Josh Frydenberg MP  
Federal Member for Kooyong  
Treasurer of Australia  
Deputy Leader of the Liberal Party  
Parliament House  
CANBERRA ACT 2600

Dear Mr Frydenberg

## **ROYAL COMMISSION IMPLEMENTATION ROADMAP**

The Insurance Council of Australia<sup>1</sup> ([Insurance Council](#)) welcomes the Financial Services Royal Commission Implementation Roadmap ([Roadmap](#)) released on 19 August 2019.

The general insurance industry believes that the Roadmap is an opportunity to achieve better outcomes for our customers. We stand ready to work with the Government towards implementing the most significant legislative reform agenda in the financial services sector in three decades. We acknowledge the enormity of the task at hand and brevity of the timelines required to have all Royal Commission recommendations requiring legislative reform introduced into Parliament by the end of 2020.

To enhance this expedited Roadmap process and simultaneously prepare our industry for immense changes to business operations, we submit the following five suggestions for your consideration. We believe that these changes are essential to facilitate an effective implementation of the Roadmap and to avoid unintended outcomes for consumers, the business sector and community at large.

### **1. A working group of industry representatives and Treasury officials**

Our first suggestion is for the Government to consider establishing a working group of general insurance industry representatives and Treasury officials. The tight time frame requires constant real time communication at a high level regarding policy and legislative drafting priorities in relation to each of the legislative reforms that the Roadmap seeks to implement.

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<sup>1</sup> The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent about 95 per cent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. March 2019 Australian Prudential Regulation Authority statistics show the general insurance industry generates gross written premium of \$47.8 billion a year and has total assets of \$125.8 billion. The industry employs about 60,000 people and on average pays out \$147.5 million in claims each working day. Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

Given the condensed consultation process, where many reforms will not involve the publication of consultation papers prior to exposure draft legislation, we believe such a working group would facilitate stakeholder discussion on key technical issues prior to the drafting of legislation.

We anticipate this would be helpful to the overall reform process by minimising the need for significant adjustments to exposure draft legislation once released for consultation. We also suggest this will help to facilitate consistency in approach across the various specific reforms.

We suggest that the working group would ideally meet on a fortnightly basis. As required, Australian Securities and Investments Commission (ASIC), Australian Prudential Regulation Authority and Office of Parliamentary Counsel officials and consumer group representatives could be invited to join the discussions on an ad hoc basis.

## **2. Appropriate transitional periods, avoiding duplication in systems changes**

We recognise that the Government is focused on implementing the Roadmap quickly, and want to assist the Government to “get it right” and achieve better outcomes for our customers, it will be critically important for the general insurance industry to have sufficient time to properly implement the necessary IT, operational, risk and other business systems changes.

Implementing the recommendations outlined in the Roadmap will require extensive reviews of our business operations including in relation to our disclosure documents, contracts, IT systems, call centres and processes for contacting our existing customers and small business suppliers. Each individual reform will likely be accompanied by substantial ASIC regulatory guides that will also need to be reflected in our systems and process changes.

For these reasons, we submit that transitional periods that provide sufficient time for proper implementation, with start dates appropriately aligned to minimise unnecessary duplications in systems changes, will be critically important in ensuring that the reforms are implemented effectively to achieve better consumer outcomes.

We want to emphasise again that the general insurance industry is ready to assist with the Government’s objective of implementing the reforms as soon as possible. However we also submit that the overall cumulative impact of these reforms on our business operations – in addition to the impact of reforms in relation to Unfair Contract Terms (UCT) and the Product Design and Distribution Obligations (PDDO) – will be substantial and particularly daunting for small to medium sized insurers.

We are currently working on detailed proposals regarding transitional periods that would appropriately be considered by the working group at its first meeting and on a case-by-case basis for each general insurance related recommendation to assist the Treasury in making recommendations to the Government regarding start dates.

## **3. Regulatory impact statements**

Our third suggestion is that regulatory impact statements should be prepared by the Office of Best Practice Regulation for all draft legislation (and where this is not possible, by the working group).

Beyond the substantial compliance cost burden for the general insurance industry, there is a real risk of unforeseen impacts on consumers and small business with a legislative reform agenda of this magnitude. The regulatory impact statement provides an important opportunity to consider all the potential impacts of the reforms, which should not be foregone.

#### **4. Detailed guidance in legislation and explanatory materials**

Our fourth suggestion is that draft legislation and explanatory materials should contain detailed guidance including cameo-type examples on how the new rules would operate in relation to the general insurance industry. This will be particularly important in enabling timely changes to compliance systems and processes. The working group will provide an appropriate forum for industry representatives and Treasury officials to work jointly to develop cameo-type examples.

#### **5. Standard cover review**

Our final suggestion is that the Government should continue to progress the Disclosure in General Insurance policy reform agenda as outlined in the Government's consultation paper of March 2019 on that topic.

The review of the Standard Cover Regime in the *Insurance Contracts Act* is a fundamental and crucial reform agenda in improving consumer outcomes. It provides the foundation on which insurance contracts are designed and is therefore inextricably linked to other key reforms such as UCT and PDDO. We submit therefore that getting the Standard Cover Regime "right" is equally as important to improving consumer outcomes as all of the recommendations on the Roadmap, and should be prioritised accordingly.

The general insurance industry has long recognised the importance of this reform agenda and have progressed initiatives in our submission to the Government's consultation paper on Disclosure in General Insurance earlier this year. We have also just concluded comprehensive testing of consumer preferences in relation to common coverage in insurance contracts.

Commencing the review of the Standard Cover Regime would allow us to work with the Government, regulators and consumer groups to build on this research and facilitate informed improvements to disclosure in general insurance.

If you have any questions or comments in relation to our submission please contact Richard Shields, Head of Government and Stakeholder Relations, 02 9253 5160, or [rshields@insurancecouncil.com.au](mailto:rshields@insurancecouncil.com.au). I have forwarded a copy of this letter to the Minister for Housing and Assistant Treasurer, the Hon Michael Sukkar MP.

Yours sincerely



Robert Whelan  
Executive Director & CEO