Assistant Treasurer

**SENATOR THE HON. ARTHUR SINODINOS AO**

**INSURANCE COUNCIL OF AUSTRALIA**

**2014 REGULATORY UPDATE**

**KEYNOTE ADDRESS**

**28 FEBURARY 2014**

EO & E…

*Topics: Insurance affordability and transparency, Australian Government Actuary Study, Commission of Audit, Financial Systems Inquiry, FOFA*

** Check Against Delivery **

Thank you for inviting me to deliver the keynote address to the 2014 Insurance Council of Australia Regulatory Update Seminar.

I would like to give you an overview of the Government's priorities and broad policy agenda which will impact on the industry. I have already had the pleasure of meeting some of you when you attended a roundtable late last year. Thank you for your involvement in that process.

But firstly I will talk about insurance and financial services regulation as I know it is a subject close to your heart and is a key focus of today.

**Financial services regulation**

In terms of regulation and the settings around financial services regulation, it is always a balance. Whilst work will always be ongoing in this area we need to ensure that any reforms meet the growth needs of the economy.

We also want to ensure regulation is cost effective and practical in meeting the needs of consumers and the industry. The objective is effective regulation to achieve good policy outcomes.

This is where industry can assist Government.

As this audience knows good policy outcomes are always enhanced when industry is able to work collaboratively with Government to provide solutions to meet the challenges facing the community.

An obvious example of this type of challenge is the vexed issue of insurance affordability in North Queensland.

**Insurance affordability**

Now it should come as no surprise to this audience that this issue is of concern to the Government.

A year ago, my colleague Mathias Cormann, when he held this portfolio in opposition, addressed this conference and emphasised the importance of the industry being efficient as competitive and responsive to community needs as possible.

I share those views. Insurance needs to be affordable and accessible. If insurance is unaffordable and out of reach people are left vulnerable and can be unable to withstand financial setbacks.

Since that address it seems little progress has been made on this issue in North Queensland. I have visited North Queensland several times recently and I've heard some real horror stories about the jump in insurance premiums in places like Cairns.

Whilst it's important for us to look at what is driving some of that and how we can mitigate the increase, in the absence of any progress on this issue, we as a Government have decided to take action to address this problem.

The need for government action to address the problem is a view shared by both the Queensland and Federal Governments and we look forward to working with the insurance industry to develop and implement practical solutions to address the insurance affordability problem.

To help us get to those solutions (and in cooperation with the Queensland Government), we've agreed on a number of actions to improve insurance affordability in North Queensland, including development of an insurance aggregator for the North Queensland insurance market for strata, home building and contents insurance, as well as development of a programme of engineering assessments for strata properties in North Queensland, to identify risks that can be mitigated.

Aggregator sites have led to significant reductions in motor vehicle and other insurance costs in the UK and can reduce search and transaction costs for consumers. This can allow consumers to make more informed decisions about their insurance purchase.

The Government recognises that it is important that residents of North Queensland strata properties are fully aware of the risks to their property from natural disasters, in particular cyclones. By raising awareness, it provides those residents with an opportunity to take necessary action to mitigate those risks, and ultimately reduce their potential exposure to damage. This would be expected to positively improve their risk assessment by insurers.

**Australian Government Actuary Study**

In addition to these measures, the Government has instructed the Australian Government Actuary to undertake a study into insurance prices for strata properties in North Queensland.

This study will expand on the 2012 study undertaken by the Government Actuary. It will cover an 8 year timeframe, from 2005-06 to 2012-13, and be extended to facilitate comparison with strata insurance pricing across northern Australia more broadly as well as other east coast centres, including Adelaide, Sydney and Melbourne.

The report will consider the causes of premium increases in North Queensland over the 8 years and reasons for variations in prices across different geographic areas.

The report will increase transparency around the causes of strata insurance prices in North Queensland over recent years. It will also be an important part of the Government's response to putting downward pressure on insurance premiums across the region.

The Government is determined to achieve some real and lasting change and to improve the insurance outcomes of North Queenslanders. The initiatives will go some way towards that objective.

**Transparency**

An ongoing theme that has been raised with members of the Government is concern within the community that consumers do not understand insurance pricing. There are a number of factors at play here such as risk profile, claims history and of course taxes on insurance.

As we know, claims experience over the last couple of years has been relatively benign, so consumers should expect that due to the cyclical nature of insurance pricing that there would be downward pressure on pricing. There is a mismatch between consumer expectation and what they are actually being charged.

Similar to the rationale behind extending the Actuary Study, is a need for a piece of work to be done on comparing insurance pricing in Australia with that of other established insurance markets in other jurisdictions. I would like to hear your views on this.

It is time for the conversation to start.

The general insurance industry has in the past shown terrific initiative and has taken the lead to address issues that directly affect consumers. An obvious example of this is when the general insurance industry came together to develop a solution to solve the problem of affordability and availability of public liability insurance following the collapse of HIH.

**Broader agenda over the next 12 months**

Turning to the broader work taking place. As you know, the next 12 months will see the Government consider the recommendations from the Commission of Audit, the Financial System Inquiry and the 'root and branch' review of competition laws and policy. We'll also be implementing amendments to the Future of Financial Advice reforms.

In addition, the Government is looking into a range of other issues as part of our productivity and deregulation agenda.

Given this amount of high-level policy activity, I'll also touch today on some of the Government's priorities, noting the Commission of Audit and the Financial System Inquiry.

I'll then outline the Government's agenda for financial services more broadly, with some focus on FOFA, and a very brief look at superannuation.

**Government's deregulation agenda**

In terms of the Government's de regulation agenda, our commitment to cutting at least $1 billion of red and green tape each year is now well-known.

And our deregulation plan is part of a broader agenda to build a stronger and more productive economy. Along with increasing competition and improving infrastructure, it's a vital component of the Government's Better Productivity Plan.

It is, of course, imperative that we improve the productivity of our nation.

We must offset lower terms of trade and the impact this has on income growth over the medium term.

One of the best ways to do that is to create a business environment that promotes competition and allows businesses in Australia to get on with doing what they do best without being burdened with unnecessary red tape. In this regard, the government is committed to removing unnecessary red tape which adds to business costs and provides little benefit to both businesses and consumers.

That said, where regulation is needed the Government is committed to improving, or lowering the cost of such regulation.

So, while the Government isn't anti-regulation *per se*, we're only too well aware, from talking with business and not-for-profits, that the cumulative effect of Commonwealth law, state law and local regulation is stifling innovation and creativity.

Ultimately, this stunts Australia's economic development and prosperity.

That's why our deregulation agenda also includes overhauling the process for creating, implementing and reviewing new regulations.

Industry plays a crucial role in identifying red tape burden and also it helps Government with calculating the costs of this red tape.

To that end, we'll implement a process within Government where we carefully balance the costs and benefits of additional regulation.

We will also drive cultural change throughout government, including the Cabinet, Parliament, and the public service.

In addition, we're establishing Ministerial Advisory Councils in every portfolio, which will consist of business people, consumers and not-for-profits, who will be charged with providing concrete examples of unnecessary red tape and solutions for how the Government can remove it. In Treasury, we will utilise existing bodies to consult.

The performance of senior public servants will also be assessed, *inter alia*, on how successfully they identify and reduce unnecessary red tape.

So that's a very broad look at how we plan to go about the task of remoulding Australia's regulatory environment into one that encourages, rather than stunts, its economic development and prosperity.

When asking Government for regulatory reform it is not only incumbent on industry to demonstrate areas for regulatory reform but also to identify the costs to industry and in many cases consumers in complying with the regulatory burden. It is just not enough for industry to say there is too much regulation and not clearly articulate to government what the burden is.

**Commission of Audit**

Turning to the Commission of Audit, I'd now like to give you an outline of where it's up to and what we hope to achieve with it.

As you may know, the Commission of Audit is now well underway. Its purpose is to both assess the role and scope of Government, and to ensure that taxpayers' money is spent efficiently.

As outlined in the Commission of Audit's terms of reference, it's been almost 20 years since there has been a thorough review of the scope, efficiency and functions of the Commonwealth government.

During this time the size of the Commonwealth government has expanded significantly, as has the remit of some of its activities.

The overriding priority in doing this audit is not to slash and burn but, rather, to ask ourselves a number of very timely questions.

For instance, what is the appropriate size of government for Australia at this stage of our development?

How do we most efficiently deliver government services?

Why do we do certain things at the Commonwealth level?

Is there a better way?

Is there a role for the private sector, the not-for-profit sector and others in the delivery of important government services?

We want to know the answers to all these questions.

Where we identify savings, we'll also figure out which savings go to the bottom line and which go to improving front-line services.

That's the sort of thinking that will guide us as we consider the Commission of Audit's recommendations over the next 12 months.

**Financial System Inquiry**

A quick update, now, on the Financial System Inquiry.

Much has changed in the financial sector since the 'Wallis' inquiry more than 15 years ago.

Australia's financial industry has served us very well during those years.

It has weathered international economic and financial crises, faced a substantial regulatory reform agenda, witnessed extraordinary growth of superannuation, changes in industry structure, new competitive dynamics, technology, innovation and broader macro-economic trends.

Given the importance of the finance industry to Australia's economic prosperity, it is vital that it continues to serve us well.

That's why this Inquiry, which is now well and truly underway, is a high priority for the Government.

And it's being very ably led by Mr David Murray AO, former CEO of the Commonwealth Bank of Australia.

Mr Murray is supported by a Committee comprising Professor Kevin Davis, Mr Craig Dunn, Ms Carolyn Hewson AO, and Dr Brian McNamee AO, all of whom are distinguished representatives of the finance, business and academic community.

The Inquiry has broad terms of reference and is charged with examining how the financial system could best be positioned to meet Australia's evolving needs and support Australia's economic growth.

I know that it will help fashion the future of our financial services industry in a positive and co-operative environment.

It is also a great opportunity for you to contribute to its work and to make sure that general insurance is appropriately considered in the light of the broader changes to the financial system.

**Taxation**

The Government is also committed to having a tax reform white paper for proposals that would potentially go to the next election. I encourage you to be part of the process. I am aware of the issues you have raised in the past around matters such as insurance taxes. But from a government point-of-view it is best that we look at some of the sectorial taxation issues in a more holistic framework where you can look at the broader issues around the balance in the taxation system.

By having more on the table you create greater degrees of freedom in dealing with some of the tax issues and making some of the choices we need going forward as a country. I think that is the appropriate context to talk about tax.

I gather, from reading Chris Bowen's comments to you earlier, that he has indicated the Opposition is interested in this whole matter of tax reform. I welcome that if that is the case and I encourage them to work with us in creating a better balanced and more appropriate taxation system. If we can make it a bipartisan commitment it will maximise the chances of getting real reform in that area.

**Future of Financial Advice**

While the Government looks forward to the findings of the Financial System Inquiry, it is also progressing with some immediate reforms which would create an environment in which the industry can play its part in boosting Australia's economic prosperity.

We understand the important role played by the financial advice industry, including insurance providers, in improving Australian consumers' financial wellbeing.

The FOFA legislation represented a major change to the financial advice industry.

In terms of our FOFA reforms, I know this is an area in which you have an interest. The Government has received feedback from stakeholders, and our agenda for FOFA is, I believe, largely reflective of what we have been told.

As I've said before, we support the underlying goals of FOFA, but we believe that in its original form it went too far; unnecessarily increasing red tape and costs for the financial services industry.

Consistent with our election promise, we are committed to reducing the regulatory overreach of FOFA.

In December last year, I announced a package of amendments to the FOFA legislation, which included implementing 16 recommendations of the Coalition's Dissenting Report that were still relevant, as well as a number of other measures.

Where legally possible, the Government will implement the measures through regulations and make subsequent amendments through primary legislation, at which stage any interim regulations will be repealed.

Treasury's preliminary analysis estimated that the proposed FOFA amendments will save the industry roughly $190 million a year, with further savings of around $90 million in implementation costs. Consumers should be the ultimate beneficiary, as businesses pass the savings on to their clients.

These savings will contribute to the Coalition's target of reducing red tape and compliance costs by $1 billion a year.

Now to some more specific aspects of the FOFA legislation.

The best interests duty is an important element of the FOFA legislation. We understand that it was intended to increase trust and confidence in the financial advice sector. However, the catch-all and scaled advice provisions have resulted in significant legal uncertainty within the industry. Many have argued that the catch-all provision makes the safe harbour unworkable and removing this provision will restore confidence to industry.

The best interests duty will continue to provide a high degree of protection against poor quality advice, as advisers will be required to satisfy six provisions to prove that they have acted in their client's best interest. This is backed up by other relevant protections in the common law and in the Corporations Act.

The Government will also amend FOFA to clarify the intent of the legislation to facilitate the provision of scaled advice. This is consistent with our goal of ensuring that Australians have affordable access to a well-functioning financial advice market.

Our proposed amendments will leave no doubt in the minds of advisers that they can offer scaled advice, which will increase affordability and improve consumer access to the financial advice system.

The Government also remains committed to removing the opt-in requirement, which has proved expensive for industry to implement. This requirement has created practical difficulties while doing little to increase consumer protection. Again, the cost savings realised by industry as a result of the removal of opt-in should be passed on to consumers.

The Abbott Government has sought to strike the right balance of consumer protection and ensuring affordable and competent advice is available.

The laws which we have in place for financial advice are sound and well balanced. They provide an excellent basis on which to consider the payment of commissions that currently exist in other parts of the financial services sector. The Government remains committed to ensuring that commissions do not provide the basis for mischief making and do not have a perverse effect on pricing that ultimately impacts the consumer and the provision of certain products to the market.

In terms of the timeframe for amending the legislation, we are on track to deliver our amendments on time.

We released draft legislative amendments on 29 January and have been consulting on those. The consultation process will give us an opportunity to refine the draft amendments to ensure that the legislation will ultimately realise the intended policy outcomes.

The legislation is on track to be introduced into Parliament late in the Autumn sittings, for debate in the Winter sittings. The Regulations are expected to be finalised in late March.

**Conclusion**

Ladies and gentlemen, I hope that I have been able to give you a comprehensive overview of this Government's agenda for the financial sector, and that I have addressed some of your concerns in the insurance industry.

I also hope I have given you more of an insight into the direction of the Government's agenda, and that its over-arching theme is to be in tune with the objectives of the financial sector and the broader economy.

The insurance industry has an important part to play in this, and I hope that we can look ahead to many more years of cooperation.