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SPEECH

ADDRESS TO THE INSURANCE COUNCIL OF AUSTRALIA

Insurance Council of Australia regulatory update

**Friday, 28 February 2014
Sydney**

[Check against delivery]

I'm delighted to be with you today and to share some brief remarks with you.

I enjoyed the professional and open working relationship I had with the Insurance Council of Australia when I was Assistant Treasurer and then Minister for Financial Services.

We had less to do with each other when I was Immigration Minister.

But after having been Treasurer and now Shadow Treasurer, I am very pleased to be working with you and the financial sector more generally, closely again.

The Labor economic team knows the sector well and is keen to engage with you on the issues important to the sector.

Bill Shorten, as Assistant Treasurer himself, engaged in reforms important to the sector and I know he also enjoyed a good working relationship with you.

In the Shadow Treasury team, Bernie Ripoll as Shadow Minister for Financial Services regularly talks to me about the issues facing the insurance sector and I know regularly engages with industry players on the challenges and opportunities facing the insurance sector.

Dr Andrew Leigh, the Shadow Assistant Treasurer, who has responsibility for detailed tax matters in the Shadow Ministerial team, has also been pro-active in engaging with the business community.

And my key message for you today is this: that engagement will continue.

Our time in Opposition will be used on important policy development, in developing plans for the economy and the financial sector that will build on our achievements in government.

And, to do so we will be open to constructive ideas and engagement.

There will be ideas we will want to consult you on. You, in turn, will have suggestions you want to put to us, just as you will the Government.

We'll be happy to hear them and engage you in our policy development process.

I have taken the view that industry associations and sectors of the economy can put forward ideas which may well be in their sectoral interest, but can also be in the national interest.

And it is the national interest that will drive our decision making process, in opposition and when we return to government.

We understand that insurance is an important pillar of the economy, standing alongside banking and super, but often not getting the recognition it deserves.

The insurance sector usually shoots to public prominence at times of natural disaster, in what is not always the most conducive environment to have a discussion about some of the key policy questions in insurance.

But the issues are important, and it is incumbent on all of us to ensure that it is not only at times of natural disaster that issues important to the insurance sector are traversed in the public policy debate.

And foremost among those issues is the need to clearly acknowledge the problem of under-insurance.

This is not a new problem, although there is new evidence to confirm that it remains a problem.

Just to mention some of the facts from research recently commissioned by the Insurance Council:

- More than four in five Australian homeowners and renters (83%) are underinsured for their home and contents – around 1 in 5 of these people would suffer substantially if an adverse event caused total loss of their property or possessions.
- Almost two out of three renters do not have any contents insurance.
- Homeowners who live in an area with known flood risk, 23% are unsure whether their building insurance covers them against flooding.
- A high proportion of households continue to be uninsured because they don't understand the details of their policy.
- One in four homeowners/renters who live in an area with high crime rates don't have contents insurance.

When consumers don't insure themselves against known risks, pressure builds on the government to step in, particularly in times of natural disaster and so there is a clear public policy case for dealing with this.

One of the answers is undoubtedly more and better information.

Greater information also has a broader benefit – it promotes more competition as it better allows consumers to compare products.

And more competition means reduced premiums for consumers.

We progressed reforms to help address these issues:

- We worked with industry to develop a one-page fact sheet for home and contents insurance policies – this will throw away with the jargon and spell out in plain English what is and isn't covered in an insurance policy.
- We developed a new online one-stop-shop for flood risk information to assist the community because more information means real choice for families looking to protect their homes;
- And we worked with industry to develop a standard definition of 'flood' across all insurance policies which assists consumers and households in understanding their insurance risks.
- I also recognise that the key to affordable insurance for householders in high risk areas (such as Far North Queensland) is effective, well understood risk mitigation. High risk areas need to become low risks areas. It's why we committed \$100m to mitigation measures when in government, which included a \$10 million contribution to upgrade flood defences in Ipswich.

But there is clearly more to be done.

And I know the industry is doing its bit too.

The establishment of the 'Understand Insurance' initiative late last year by the Council will help consumers understand the benefits of insurance, improving their ability to choose the appropriate policy for their circumstances.

And the recent decision by the new government to commission the Productivity Commission to look into national disaster funding arrangements is a welcome one.

But I do recognise that these improvements will only go so far when it comes to dealing with under-insurance.

Clearly taxation is an area that remains problematic.

The insurance sector is not after a subsidy: but has a legitimate argument that the structure of our taxation system is unfairly distorting the market and discouraging people from making a rational decision to take up insurance.

When I was Minister for Financial Services, Superannuation and Corporate Law I commissioned the Johnson review to examine how to knock down barriers to the competitiveness of our financial services sector and to promote Australia as a financial services hub.

One of its recommendations was to remove state insurance taxes.

Removing inefficient state-based insurance taxes was again recommended by the Henry review.

Taxing insurance is not an efficient way to raise revenue and is distortionary.

As a Labor alternative Treasurer, it also concerns me that insurance taxes are, fundamentally, regressive.

These taxes effectively punish 'good' behaviour and can exacerbate the underinsurance situation we are currently experiencing as consumers face premium costs that don't reflect the true risk of the events they are insuring for.

And we do need to recognise that Australia has relatively high insurance taxation compared with other OECD countries.

Labor will be engaging constructively and pro-actively in the national tax reform debate and we will be developing policies around a more efficient tax structure to take to the next election.

I would encourage you not to be too dis-heartened by the fact that these particular recommendations of the Johnson and Henry reviews have yet to be implemented.

The history of tax reform in Australia tells us that recommendations from reviews such as this are rarely implemented immediately, but are often implemented eventually.

When you consider that states now raise one in twelve dollars of tax revenue from insurance taxes, it is inevitable that their elimination or reduction is a major undertaking, requiring a co-operative approach, preferably through COAG.

While any progress would be welcome here, I suspect meaningful reform is likely to be beyond the ability of any one state or territory to progress alone and there is going to need to be national leadership at the federal level.

In the national debate about tax reform, dealing with the distortionary effects of insurance taxes will need to be high on the agenda and federal Labor will be taking an active role in that debate.

There is plenty more I could talk about today:

- the importance of information technology to productivity in the financial sector and the need for the National Broadband Network; and
- The good progress that was made in implementing many of the recommendations of the Johnson Review and the need for the new Government to continue this work, and the encouraging developments of the further expansion into Asia of several prominent ICA members...

These would be just two possible topics.

However, I know your agenda is full.

There will be plenty of other opportunities for us to discuss these and other matters.

Just as our door was open to you and your individual members in Government, so is our door open to productive discussion in Opposition.

The next election is now two and a half years away, at most.

We intend to be very competitive at that election.

We will be robustly pointing out what we see as the failings of the current administration.

But we will also have positive plans, alternative approaches and well thought out ideas.

Our consultation with the business community, even in the last few months, has been extensive.

It will continue and increase.

And we welcome you being part of that consultation and policy development process.

ENDS