Opening Remarks

2016 ICA Annual Forum

Mr Andy Cornish

President, Insurance Council of Australia

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Hilton Sydney

Welcome to the Insurance Council of Australia's Annual Forum.

On behalf of the ICA, the Forum and all speakers and delegates, it's my privilege this morning to acknowledge the traditional custodians of the land on which we meet – the Gadigal people of the Eora Nation.

I pay respect to Eora elders past and present, and extend that respect to other Aboriginal and Torres Strait people here.

We used to call this conference the Regulatory Update, but the regulatory environment felt a little bit too narrow and so we decided, and as we're always trying to do, to contemporise this event and make sure it is one that's up to date and relevant.

And so we changed its name, and as a consequence I think we can have a broader and richer conversation.

It's an exciting agenda. I am delighted to welcome Assistant Treasurer Kelly O'Dwyer for her first keynote speech to the general insurance industry. I suspect she will touch on a number of issues that will be very relevant to us. Of course, the thorny issues of affordability and insurance are always in our minds and so we're very excited to hear what she has to say to us.

Shadow Treasurer Chris Bowen returns, and I think many ears will be interested to hear what Chris has to say on the topic of tax, early elections, the federal Budget and also economic reform.

Some of you will have seen the press this week in relation to CTP, particularly in fraud. The NSW Minister for Innovation and Better Regulation Victor Dominello is going to be discussing his government's approach to that and the sharing economy.

Also we will be hearing from ASIC Deputy Chair Peter Kell and APRA Member Geoff Summerhayes.

So we have extraordinary speakers today, and there's been a lot that has recently been in the press and elsewhere that will surely be of interest to us all.

I thank them – and all our speakers today - for their time and insights.

I'd like to talk about two reforms that are underway in NSW. Both will have a significant impact on consumers and the insurance industry.

In December, the Baird Government decided it would bring NSW into line with other states and territories by replacing the Emergency Services Levy on insurance with a property-based levy.

This Emergency Services Levy provides most of the funding for the fire services and the SES – about 770 million dollars this year - and it currently does so by penalising householders who buy insurance.

It also typically adds about 21 per cent to the final amount that consumers pay for their home and contents cover, despite everyone benefiting from the efforts of firefighters and the SES, whether they have insurance or not.

From July 1 next year, a property-based charge will spread the load more equally across the community.

It’s fair, and equitable, and it’s the model used in various forms throughout Australia.

This reform will have a net benefit. The average household will see more than 250 dollars wiped off the amount it pays for its insurance.

It will help reduce non-insurance and underinsurance.

And modelling by Deloitte Access Economics suggests it will boost the state’s coffers by about 84 million dollars a year by increasing household consumption.

The Insurance Council and its members have been advocating this change for many years.

We are in discussions with the NSW Government and Treasury on how best to transition to this new system from a levy that was never designed to end. But the industry will strive to ensure that this reform will go through smoothly.

This week also saw the start of another reform in NSW.

Many of us who are involved in Compulsory Third Party insurance have been concerned about the susceptibility of the NSW motor accident scheme to exaggerated claims and falsehoods.

This is now a big issue. The scheme is experiencing a steep rise in the number of minor claims despite the declining frequency of road accidents.

In November, a report from the State Insurance Regulatory Authority found the number of CTP claims rose by 39 per cent in Sydney between 2008 and 2014, despite a 12 per cent decrease in road casualties over the same period.

Across NSW, the number of minor severity claims with legal representation for incidents involving passenger vehicles rose 92 per cent in the same time.

This is costing the scheme dearly and is having a big impact on prices, and on the scheme’s long-term viability.

The figures suggest a small number of motorists, legal representatives and healthcare providers are not doing the right thing, and it’s costing us all.

And this is why the Insurance Council welcomes the Baird Government’s announcement that a CTP taskforce will examine the issue of fraud and claims exaggeration.

The taskforce consists of the police, the State Insurance Regulatory Authority, the Healthcare Complaints Commission, the Insurance Council and its members, the legal profession and the Office of the Legal Services Commissioner.

The interests of motorists, the public and NSW are best served when the CTP scheme can be sustainable, efficient and cost-effective in delivering its services to injured people.

The issue of fraud in CTP reminds us of the importance of remaining closely engaged with the national reform agenda for accident compensation, and the finances of various schemes.

I am therefore pleased that today's agenda also includes an update on the National Injury Insurance Scheme and how it will complement the National Disability Insurance Scheme.

The next reform from an impost perspective is getting rid of state taxes on insurance.

However, despite Prime Minister Malcolm Turnbull recently identifying insurance taxes as being unfair and overdue for removal, the states are naturally reluctant to give up their incredibly lucrative revenue streams.

This is costing Australians dearly. It inflates the final amount consumers and businesses pay. And it is also one of the causes of Australia's underinsurance and non-insurance problem.

Reform of state and territory taxes and duties should be a natural part of any discussion of taxes and the economy, and I urge all levels of government to engage in this process.

Now onto some other important matters.

Today's agenda reflects many of the challenges and concerns the insurance industry has at the moment.

I'll be chairing a session this afternoon on what climate change means for the insurance industry on our balance sheets and on the way that we conduct our business. And I think we can use the words "climate change" now.

Since late last year the industry has suffered about 600 million dollars in natural disaster-related losses from the Kurnell tornado and terrifying bushfires in three states.

Though ostensibly light compared with previous summers, the disaster season is not over. Cyclone Winston - one of the biggest cyclones on record - smashed Fiji a couple of weeks ago.

It remains possible another cyclone could make landfall near a populated area of Australia over coming weeks.

Bushfires continue to threaten many parts of the country, even while insurers work with communities and governments to start the rebuilding process.

Though Australia's insurers are responding admirably to the challenges of natural disasters, there's more to this than being able to respond in the short term.

A report produced for the UK Department for Environment, Food and Rural Affairs into the impact of climate change on British insurers concluded that insurers stood exposed to the key risks that climate change posed to finance both in liability and transition risks.

The Governor of the Bank of England, Mark Carney, has said that insurers should not assume that their capacity to manage risks today means the future is secure.

Australia is much more exposed to natural hazards, and possibly the impact of climate change, than the UK, yet the insurance industry here has not yet been very vocal. There's little doubt climate change will disrupt communities, and insurers.

On Wednesday the Australian Business Roundtable for Disaster Resilience and Safer Communities revealed the total average annual cost of natural disasters in Australia is expected to increase from $9 billion to $33 billion by 2050, despite difficulties of modelling.

That's a leap from about 0.6 per cent of GDP to 1.2 per cent.

The risks of cyclones, floods, bushfires and storms are not easing, and insurance serves as the canary in the coal mine. It prices the risk.

Unless the impact of these events can be better managed, the social and financial impact is only going to soar.

So what's needed? I've said this before, and I can only hope the message is starting to get through.

It's really important that governments, business and communities all work together to address the impact of current and projected natural disaster risk, by improving community resilience and investing in appropriate mitigation.

We should be putting more resources into prevention, better infrastructure and better design, rather than spending small fortunes on disaster recovery.

Just before lunch we will hear more about disruption, this time in the context of the sharing economy.

NSW's Minister for Innovation and Better Regulation, Victor Dominello, and John O'Mahoney from Deloitte Access Economics, will explore the challenges for governments, regulators and established businesses that are posed by technology-enabled entrants, such as UberX and Airbnb.

It's a phenomenon that is disrupting governments, regulators, consumers and established business models around the world. Consider the fact that Uber is something that has only really featured in the vernacular in the last 12 to 18 months, and it's now something we see as so common. Indeed I used UberX to come to work this morning.

Insurers have struggled to decide whether they can and should offer insurance to businesses that challenge existing regulations.

The NSW Government is to be commended for taking a wider view of the issue in its Collaborative Economy Position Paper.

Some of the big questions remain, such as whether governments will remain committed to the concept of competitive neutrality.

There are also wider challenges for insurers posed by applying the collaborative model to financial services. I'm really interested in the threats, or opportunities, for this sector as we move forward.

We've had some positive news from our regulator, ASIC.

Research has highlighted the significant progress insurers have made to help their customers make decisions. We talked about this at the Regulatory Update last year.

A year after conducting a survey of home insurers, ASIC reviewed the companies again and found big improvements in their consumer disclosure practices.

ASIC's findings demonstrate the industry's commitment to helping customers choose the most appropriate products to meet their needs.

The regulator has noted a jump in the number of insurers incorporating sum-insured calculators into the sales process.

It also highlighted improvements in the training of staff to provide clear, easily understood information about sum insured amounts, and how changes to building codes may affect their cost of rebuilding.

This come just months after the Insurance Council of Australia's Effective Disclosure Taskforce made a series of recommendations to better align the provision of information with customers' needs.

As ASIC points out, we have more that we need to do, but this afternoon, we will hear about the work the Insurance Council and its members are now undertaking to help improve customers' decision making.

It's a long process, and one that will generate some robust debate, but it's an issue I have championed as President of the Insurance Council.

ASIC this week also criticised the life insurance and general insurance industries for selling various forms of insurance through car yards.

ASIC's trepidation is being heard. Insurers acknowledge concerns about the extent to which consumers understand the products they have bought, and there's more that we should and need to do.

We are reviewing products to ensure they are fit for purpose. Many insurers are already implementing or planning a range of improvements to their consumer credit insurance products.

Better disclosure plays an important role here.

However, ensuring that customers now – and in the future – can buy the most appropriate insurance for their needs through innovative technologies or other channels is only part of the issue.

The industry must still overcome the accessibility challenge. How can it provide as many Australians as possible with products to help them manage the risks in their lives when the world is changing so dynamically?

Recently, a tribunal in Victoria ruled on a case of a travel insurance policy that was declined on mental health grounds by the insurer.

We should not shy away from this and the insurance industry is not shying away from this. It is looking at the difficulties Australians who have mental illnesses face in finding travel insurance cover.

Later today a panel will explore this and other questions of insurance availability, including products for low-income households.

And finally, like many of us in the room, I never planned to work in the insurance industry when I was leaving school and planning what to do next.

I don’t suspect many of you did either.

So many of us have satisfying, rewarding careers in insurance, often by chance or opportunity rather than plotting out a career path.

And well done to those of us smart enough to choose this industry from the start.

But the latest generation of workers has different needs than previous generations. Our companies need to integrate these differences in the way they recruit and manage their workforces.

Competition for talent is fierce. Companies are faced with the challenge of attracting, and keeping, the staff they need for today’s business needs. They also know they will be tested by economic change and will need to better reflect the diversity of their customer base.

So I commend the final session of the day, HR Challenges in General Insurance, to you. It comes immediately before the networking drinks and I assure you it will run to time.

I thank Rob Whelan and his team for their work on the new Annual Forum. It’s a diverse and exciting program, and I look forward to meeting many of you during the day.

*(ANDY to introduce Assistant Treasurer **Kelly O’Dwyer**)*