

December 8, 2014

Response to the Financial System Inquiry

Rob Whelan, CEO of the Insurance Council of Australia (ICA), makes the following comments in response to the Financial System Inquiry report:

Disaster funding and mitigation

The general insurance industry is very encouraged by the Murray inquiry's focus on the importance of investing in mitigation to reduce the impact of natural disasters on at-risk communities, and reduce the cost of post-disaster recovery.

This is aligned with the Productivity Commission's draft report into disaster funding.

The ICA supports the FSI's statement that: *"The cost of insurance can be high, especially for coverage in higher-risk areas such as flood plains and cyclone-prone areas, leading to non-insurance and underinsurance. The Inquiry believes this issue should be primarily handled by risk mitigation efforts rather than direct government intervention, which risks distorting price signals."*

The ICA believes the FSI report gives the green light to the Federal Government to urgently work with state and local governments to prioritise investments in mitigation, and examine improvements to building standards to promote resilience. This should include consideration on how governments may assist building owners and managers to make improvements to existing structures that reduce the damage caused by extreme weather.

Further evidence for the need to improve mitigation and community resilience in natural disaster-prone communities is contained in last week's [Australian Government Actuary report into home and contents insurance](#) in North Queensland. It concludes cyclone risk is driving premiums in the region; that insurers are paying out \$1.40 for every \$1 they receive in premiums; and claims costs in North Queensland were more than 80 per cent higher than in Brisbane, Sydney and Melbourne.

Competition

The ICA is pleased the FSI report promotes competitive neutrality (ensuring all businesses in a certain sector operate on a level playing field). The FSI report also suggests the stability implications caused by any increase in access by Unauthorised Foreign Insurers (UFIs) should be examined.

However, the Federal Government's recent promotion of the use of UFIs as a competition tool is contradictory to the principle of competitive neutrality. The ICA believes the ability of UFIs to enter the national market and sell retail products without the same cost impositions as existing insurers could significantly undermine the existing highly competitive and efficient domestic insurance market.

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Last week's [Australian Government Actuary report into home and contents insurance](#) in North Queensland clearly identifies cyclone risk, and not competition, as the driver of insurance prices in the region.

Encouraging UFIs to enter the national insurance market for retail products on the basis of price alone, without the same prudential, regulatory and consumer protections available to those insured with Australian licensed insurers, will not change the exposure of North Queensland and other regions to natural disasters. It could leave thousands of Australians exposed in the wake of a natural disaster, and without the rigorous consumer protections that Australian law otherwise provides.

Disclosure and consumer empowerment:

The FSI recommendations support the Insurance Council of Australia's position that reforms and improvements to advice and disclosure regimes would improve the ability of consumers to make well-informed purchasing decisions, including assisting consumers in more precisely assessing their home replacement sum insured.

The ICA and its members are working with ASIC on how insurers may be able to provide enhanced advice, which is a current limitation imposed by existing regulatory regime. The uncertain Corporations Act boundary between personal and general advice discourages general insurers from providing more tailored information to consumers about their policies.

Further, insurers do not have access to all relevant information on the factors that go to assessing replacement value. Local council building regulations – particularly in high-risk areas – can significantly impact replacement costs.

The detailed information on the value of a home's contents and construction materials of the dwelling are usually much better understood by the consumer, and insurers only have a limited capacity to estimate these values if consumers cannot provide the information. However, insurers are actively pursuing improved methods of estimation and advice provision to address this issue.

Tax reform

The ICA agrees that taxes on insurance should be reduced or removed to improve insurance affordability.

It calls on state, territory and federal governments to resume discussions on abolishing state stamp duties and levies on premiums. Removing stamp duties and levies will immediately slash the cost of insurance for millions of households, motorists and small businesses.

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