Opening statement to the House of Representatives Standing Committee on Economics inquiry into Impediments to Business Investment

Delivered in Sydney, Tuesday July 31, 2018

(NOTE: This is an uncorrected proof of evidence taken before the committee, provided by Hansard)

John Anning, General Manager Policy Regulation, Insurance Council of Australia:

Thank you for the opportunity to appear today before the committee.

When this inquiry was announced, the Insurance Council members were very keen to put the views of the general insurance industry on the impact of regulation on investment.

This is not because we want to bring attention to a particular piece of red or green tape, but to highlight a widespread propensity on the part of governments in Australia to address public concern about an issue with a new piece of regulation or regulatory action, such as a review, regardless of whether it is necessary or the most appropriate policy response.

This is despite a general commitment by Australian jurisdictions to principles of best regulatory practice, which require a disciplined approach to identifying whether regulation is the most effective means of addressing a problem. On behalf of the Insurance Council and its members, I would like to make clear upfront that we recognise the right of all levels of government to exercise their powers as they see fit to serve the best interests of Australians. Indeed, part of the strength of the Australian insurance industry is the rigorous regulatory regime within which it operates; however, there are consequences.

The customer experience with general insurance is currently changing greatly, with growing customer empowerment driven by widespread use of the internet, interactive digital technology and social networks. These developments hold out great promise for better customer outcomes. However, our members tell us that the greatest impediment to investment in innovation is the increasing need over recent years to devote resources to regulatory compliance. This is in the broad sense of handling regulatory interactions, not just complying with applicable laws.

While it is difficult to obtain hard estimates of the increased burden of regulation, over the 10 years that I've dealt with regulatory policy at the Insurance Council, the number of staff devoted to these issues has more than doubled and we have reports from individual members of ours that their staff dealing with regulatory matters has tripled.

On the burden of government regulation, the World Economic Forum ranks Australia 80th out of 137 countries. By comparison, Singapore comes first, New Zealand 21st and the Russian Federation 79th. It may not, therefore, be a coincidence that business investment for the Australian financial and insurance services industry has fallen as a share of GDP from one per cent in 2000-01 to 0.6 per cent in 2016-17.

The *Intergovernmental review of business investment* highlighted:

> There was almost universal feedback that uncertainty has been elevated for the past decade and that this is impacting firm behaviour—both business strategy and investment decisions.

It also said:

> … the focus for governments should be on reducing their contribution to uncertainty.

The World Economic Forum ranks policy instability as the fourth-most problematic factor of doing business in Australia.

In recent years, the general insurance industry has participated in a substantial number of reviews and inquiries.

The attachment to the Insurance Council's submission listed more than 25 major reviews over the past 10 years, and this didn't include the usual round of consultations on everyday regulatory change.

The large number of reviews inevitably requires resourcing by industry, either individually or collectively through the Insurance Council; however, this would at least be productive if the outcomes were duly considered and acted upon.

Unfortunately, good policy outcomes have apparently not been the priority. The impact of natural disasters on the pricing of insurance in northern Australia has been looked at numerous times, but it appears easier to initiate another inquiry by a different regulator than tackle questions about appropriate land use and mitigation in the face of disaster risks.

It is difficult to see that new insurers would be willing to invest in offering insurance in northern Australia when the regulatory regime may be dramatically altered with the introduction of a government backed reinsurance pool or mutual insurer.

Similarly, numerous inquiries have recommended the removal of state stamp duties on insurance because it makes little sense to deter consumers from adequately protecting themselves from financial loss. However, it is only the ACT which has completely abolished its stamp duty, and in New South Wales removal of the Emergency Services Levy imposed in addition to stamp duty was reversed in the middle of 2017, a matter of weeks before reform was complete.

A more considered approach to the introduction of new reviews and inquiries would be beneficial, whereby attention is given to inquiries already conducted, their outcomes, the outcomes of any recently introduced reform, any pending reforms and industry self-regulatory initiatives. A more collaborative approach between industry and government to policy reform is more likely to result in effective solutions and outcomes which address the questions identified.

Over recent years, the Insurance Council has led an industry project to better understand the drivers of consumer decision-making and how information can be improved to help consumers make decisions about insurance needs. We have worked with Treasury and ASIC in undertaking research, and we will be undertaking further consumer testing to drive important industry initiatives. We hope this collaboration can continue rather than government moving to impose change for the sake of appearing in charge of the policy agenda.

Some years ago there were efforts to identify and tackle the problem of unnecessary regulatory burden. In 2007 the Productivity Commission was asked to review all Australian

Government regulations separately every five years. As part of this work, the commission drew attention to unnecessary regulation, making recommendations to reduce the regulatory burden as well as for the better design and development of regulatory frameworks affecting the sector. The Insurance Council does not know why, but this cycle of reviews was terminated in 2012.

Similarly, the Australian Government had requested the Productivity Commission to undertake a benchmarking study into regulatory impact analysis, and we understand that this report, which concluded in November 2012, was particularly useful in comparing processes and identifying leading practices so that jurisdictions might learn from the experiences of others. However, this also has been discontinued.

The Insurance Council suggests that the committee consider recommending that these work streams be revisited, to ensure ongoing attention to effective regulation continues.

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