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Insurers to examine coverage gaps to better support economic growth

The Insurance Council of Australia (ICA) is undertaking a review of the insurance sector's options for reforms to improve its contribution to national economic recovery and growth, amid concern from insurers, stakeholders and the community about the availability and affordability of some categories of cover for certain groups of customers.

A range of inquiries and reviews over the past decade focused on issues of insurance affordability and availability in high risk areas or sectors and have identified potential coverage gaps for some groups of consumers and businesses.

The aim of this review, which is being led by former insurance executive and regulator John Trowbridge in collaboration with leading economist Michael Blythe, is to provide a summary of practical solutions to problems that have been challenging sectors of the economy for a decade or more.

ICA CEO Andrew Hall said insurance exists to transfer risk from consumers and businesses in a manner that enables them to pursue their affairs confident they will receive support to recover financially from any insured risks.

"As our nation navigates the COVID economic recovery, it's important to understand that nothing can happen without insurance providing essential coverage for insurable risks," Mr Hall said.

"The private insurance market performs this risk transfer process successfully on the whole, however the industry is keen to examine where it can do more to manage issues of affordability or availability.

"In many of these cases, insurers themselves are also under pressure to provide a profitable product, so solutions are often difficult to determine.

"While changes in availability or affordability of insurance send a price signal about the risks that are present, we know that where there are acute issues we need to find ways forward so economic prosperity is not hindered or risk shifted back on those without the capacity to properly manage it.

"That is why the Insurance Council has engaged industry expert John Trowbridge and leading economist Michael Blythe to undertake this important review and recommend ways forward for the industry and policy makers."

Mr Trowbridge said that while the issues around affordability and availability were well known, there has been a lack of agreement on potential solutions.

"As has been recognised by the recent Royal Commission into National Natural Disaster Arrangements, the ACCC Northern Australia Insurance Inquiry, and Australian Small Business and Family Enterprise Ombudsman's report, some of these issues can be addressed with industry

initiatives or regulatory reforms, but some may be beyond the ability of the private insurance industry to resolve on its own,” Mr Trowbridge said.

“The consultation paper will review various potential solutions and flag questions for policy makers, stakeholders and the industry to consider in order to move these important issues forward.”

Engagement with stakeholders has started and a consultation paper will be released in March, and a final report including recommendations is expected to be released mid-year.

Terms of reference

- Examine the role of the private insurance market in promoting economic recovery and growth
- Identify insurance market segments and market situations where affordability and/or availability are seen to be important issues
- Explore which of those segments and situations can be ameliorated or rectified through initiatives taken by insurers, either individually or collectively
- Identify which segments and situations are not reasonably insurable in the context of community and government expectations of affordability and availability
- Identify principles and potential solutions which will overcome the current market shortcomings, so as to serve the community better without imposing obligations on insurers that they cannot meet, or that may cause them to withdraw from the market or to fail
- Consider how best to approach scenarios where insurance protections become unaffordable or unavailable due to market limitations
- Suggest initiatives that the industry and governments might take that would overcome market limitations, serve the insuring community better and support government policymaking in the interests of our society and the economy.

John Trowbridge has a distinguished career as a consultant, executive, company director and regulator, working predominantly in financial services with an emphasis on insurance-related businesses. He founded Trowbridge Consulting in the 1980s which became a leading actuarial and management consulting firm in Australia and Asia, specialising in insurance and merging with Deloitte in 2000.

He has held senior executive positions at QBE and Suncorp and, from 2006 to 2010, he was the APRA Member for insurance. He chaired the Australian Government’s review of natural disaster insurance following the 2011 floods and in 2015 he chaired the Life Insurance & Advice Working Group to recommend reforms in the life insurance industry which came into effect in January 2018. He undertook a review for the Reserve Bank of New Zealand of its prudential insurance regime following the failure of CBL Insurance in 2018.

Michael Blythe is a respected economist and senior executive with more than three decades’ experience in economic policy and financial markets. He has worked across both Commonwealth Bank of Australia and Reserve Bank of Australia and brings great knowledge of, and insight into, the Australian and global economy, economic policy and markets.

After graduating in economics from the University of Sydney in 1982, he spent 13 years in various roles within the Economic Group of the Reserve Bank of Australia including a stint at the International Monetary Fund in 1988. He was the RBA’s Senior Economist from 1991-95. He joined the Commonwealth Bank in late 1995, where he was Chief Economist until 2020.