Insurance Council of Australia

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The Productivity Commission
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To whom it may concern

Productivity Inquiry - A competitive, dynamic, and sustainable future

The Insurance Council of Australia (Insurance Council)[1] welcomes the opportunity to provide a submission to the Productivity Commission's Inquiry's Report A competitive, dynamic, and sustainable future.

The role of general insurance

When businesses and consumers purchase insurance, they transfer certain risks to an insurer. Insurers identify and manage the costs of those risks to ensure there are sufficient funds to meet the cost of future claims as they arise. To do this, an insurance company puts a price on the likelihood of someone making a claim, and the cost of that claim. The most significant contributions insurance makes to society is to provide risk sharing between customers, and risk transfer through reinsurance.

Helping individuals protect what's important

What insurance means at the individual policy holder level is that it allows households to protect their most valuable assets and avoid the financial burden of repairing or replacing assets damaged in an insurable event. For example, in the case of property insurance, most households would not have the savings necessary to rebuild their home while simultaneously paying off the mortgage on the original home. Insurance enable recovery. For example, in 2022, the declared catastrophe 221 for the SE Queensland and NSW Floods, has to date resulted in 236,000 claims totalling $5.57 billion.

Benefits to Government

The private insurance market remains the most effective and economically sustainable solution to ensuring the maximum number of Australians choose to cover themselves for risk. Insurance reduces the pressure on governments to rebuild and restore communities following misfortune or disaster.

Government has an interest in enabling insurance, particularly property insurance. In this regard, state taxes on insurance are an avoidable impediment to the uptake of insurance and have the effect of shifting the burden of recovery onto government. For example, state stamp duty on insurance contracts makes insurance less affordable. And in NSW the Emergency Services Level doubles the

[1] The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 60,000 people, generates gross written premium of $59.2 billion per annum and on average pays out $148.7 million in claims each working day ($38.8 billion per year).

rate of uninsured residential properties to 15 percent in NSW compared to 7 percent in Victoria where the levy was abolished.

Benefits to the community

Insurers play an important role in identifying, assessing, and communicating risk. The price of insurance premiums provides an important signal that can help individuals and communities understand their exposure to a range of risks. It also provides an incentive to individuals to implement preventative and protective measures to reduce vulnerability.

In context of natural disasters, government plays a key role in investing in and disseminating data sets on risk, including the property level data, that can support risk assessment and enable refined pricing by insurers and better land use planning to reduce the overall risk profile of property.

Contribution to the economy and financial stability

Insurance enables productivity enhancing investment by distributing the risks associated with business investments and capital raising, and thereby increasing the expected return on investment. Insurance also supports labour market participation, specifically in natural disasters, by enabling recovery and return to the workforce.

The Australian general insurance industry is well capitalised and highly competitive, in spite of the low interest rate environment and unprecedented natural disasters over recent years. It employs some 60,000 people

Australian general Insurance Industry

The general insurance market in Australia is mature and sophisticated in terms of its product offering, risk assessment, and management. The sector is competitive and dynamic with ever increasing transparency of pricing and policy features. It is serviced by a large number of insurers, providing a wide range of products to customers. There is intensive price, service, and product competition. As such there is significant consumer information in the market about product offerings. Customers have access to a healthy range of products from which to choose, and they are able to take advantage of special features such as loyalty and multi-policy discounts.

The general insurance market is stable because it is disciplined in risk-based pricing of its products. The Australian general insurance industry is open to the entry of new insurers, including foreign insurers. Foreign general insurers can establish local branches in Australia, subject to the Australian Prudential Regulation Authority (APRA) being satisfied that they meet certain prudential requirements. In the personal lines market, the presence of various foreign insurers as well as large retail groups is having a favourable impact on prices and product range as they seek to build market share, particularly in the domestic motor class of business.

Consumer protection and consumer confidence – disclosure, advice, and education

The insurance industry believes the consumer protection regime can be streamlined to better meet consumer needs by:

- Facilitating insurers use of shorter and more tailored disclosure documents
- Reducing regulation and compliance costs around providing advice
- Enhancing the role of, and investment, in financial literacy and insurance education
- Ensuring policy responses take account of technological advances and consumer preferences; and
- More clearly tailor the regime to meet the type of product offering in question

Transparency and informed decision-making by participants are a critical part of a well-functioning financial system.

The joint report from the Australian Securities and Investments Commission (ASIC) and the Dutch Authority for the Financial Markets (AFM), Disclosure: Why it shouldn't be the default identified consumer's decision-making processes varied as did the sources of information consumers rely on to make these decisions. It recognised the limitation of standardised disclosure in long or short form and the need for regulators, policy makers and industry to move beyond disclosure alone to improve consumer understanding and outcomes. Within insurance, the introduction of product design and distribution obligations which came into effect in October 2021 put the onus on insurers to target their products appropriately to an identified market of customers and monitor outcomes to ensure that those customers are continuing to receive products that suit their situation and needs.

While the DDO obligations complement and support informed decision-making by participants, a co-ordinated, strategic response is required to increase community understanding of insurance. This includes:

- Community insurance education programs are necessary to support and complement risk awareness and risk reduction. Consumers need to understand that price reflects risk
- Promoting the value of insurance– insurance protects the individual, promotes financial stability by alleviating the welfare burden on governments and stabilises the economy as a whole by allowing for quicker reconstruction and reestablishment following natural disasters; and
- Encouraging consumers to read their policies so they understand the cover being provided and can satisfy themselves that the cover is appropriate for their needs.

Climate change

In the interim report, the Commission discussed the role of the insurance industry in the adapting to climate change. The insurance industry has a key role to play in adapting to climate change as the industry shares a deep understanding of risk to help improve Australia's resilience to a changing climate and extend the frontiers of insurability. At the same time, insurers are committed to reducing their own GHG emissions to net-zero. This will require insurers to reduce operational emissions, the emissions associated with underwriting activities, claims supply chain, and investment decisions.

On 2 November, the Insurance Council released a landmark paper outlining the way insurers can achieve net zero emissions for their operations by 2030 and across the entirety of insurers' activities by 2050. The Insurance Council's climate change roadmap charts a path for insurers to achieve net-zero by 2030 for their own operations through measures such as investing in energy efficiency, rooftop solar for office buildings, and transitioning corporate fleets to electric. It also outlines a pathway for insurers to undertake the more difficult task of reducing emissions associated with underwriting activities, the claims supply chain, and investments, achieving net zero no later than 2050.

To ensure Australians continue to have access to affordable insurance protection, Australia must increase investment in the resilience of the built and natural environments, and in parallel, address the underlying cause of more severe weather events by reducing GHG emissions.

The Commonwealth Budget commitment of up to $1 billion over five years from 2023-24 (up to $200 million per year) to invest in measures that better protect homes and communities from extreme weather, through the previously announced Disaster Ready Fund, is an important response to this challenge.

The Insurance Council welcomes the announcement by the Commonwealth Government in the October Budget of the Hazards Insurance Partnership, that will be an important forum for engagement with the insurance industry. The Insurance Council looks forward to continuing its long-standing engagement with governments, regulators, and other key stakeholders to promote a prudential policy and regulatory environment that aligns with best practice, supports climate change adaptation and mitigation, and helps each of its members to set and pursue their own net-zero targets with confidence.

Cost of Regulation

Regulation imposes significant costs on the insurance industry that ultimately are passed onto customers through higher premiums. In context of affordability, the government needs to be mindful of the impact of additional regulation and ensure regulation is both necessary and efficient. In its submission of 1 February 2022 to the Financial Regulator Assessment Authority, regarding its inquiry into the Australian Securities and Investment Commission (ASIC), the ICA outlined the cost of regulation flowing from the Financial Services Royal Commission:

> *The Government response to the Financial Services Royal Commission (FSRC) which was aimed at improving the conduct of the industry and reducing harm to consumers while important, was not without a cost to businesses and individuals. Treasury estimates of the average regulatory costs for the package of reforms placed it at nearly $344 million a year for businesses and over $15 million a year for individuals[2].*
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> *Articulation of the strategic goals for the financial services industry, including insurance, would serve as a guidepost for financial services industry regulators and allow for strategic regulatory planning and prioritisation by the CFR. This would be a similar approach to that adopted in the United Kingdom (UK) by the Financial Services Regulatory Initiatives Forum (FSRIF) made up of the UK's financial regulators.*
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> *The FSRIF sets the regulatory pipeline over a 24-month horizon so that the financial services industry and all stakeholders can understand and plan for initiatives that could have a significant operational impact on them. This approach in Australia would benefit all financial services stakeholders, industry, and community alike, and would particularly assist insurers who must factor in an increasingly volatile business environment due to frequent extreme weather events.*

The extent of regulation of the insurance industry can more easily be appreciated through the attached diagram that illustrates the main entities, departments, and regulatory agencies that the industry typically must engage.

Listed against each are some but not all of the issues that were in progress at the time this diagram was compiled. Because insurance spans the whole economy, it is often part of policy solutions a broad range of issues. For regulation of the insurance industry alone, engagement with ASIC and APRA includes review of regulatory standards and regulatory guidance as well as engagement on compliance matters. Engagement with Treasury includes a range of policy reviews and consultations, most of which involve legislation.

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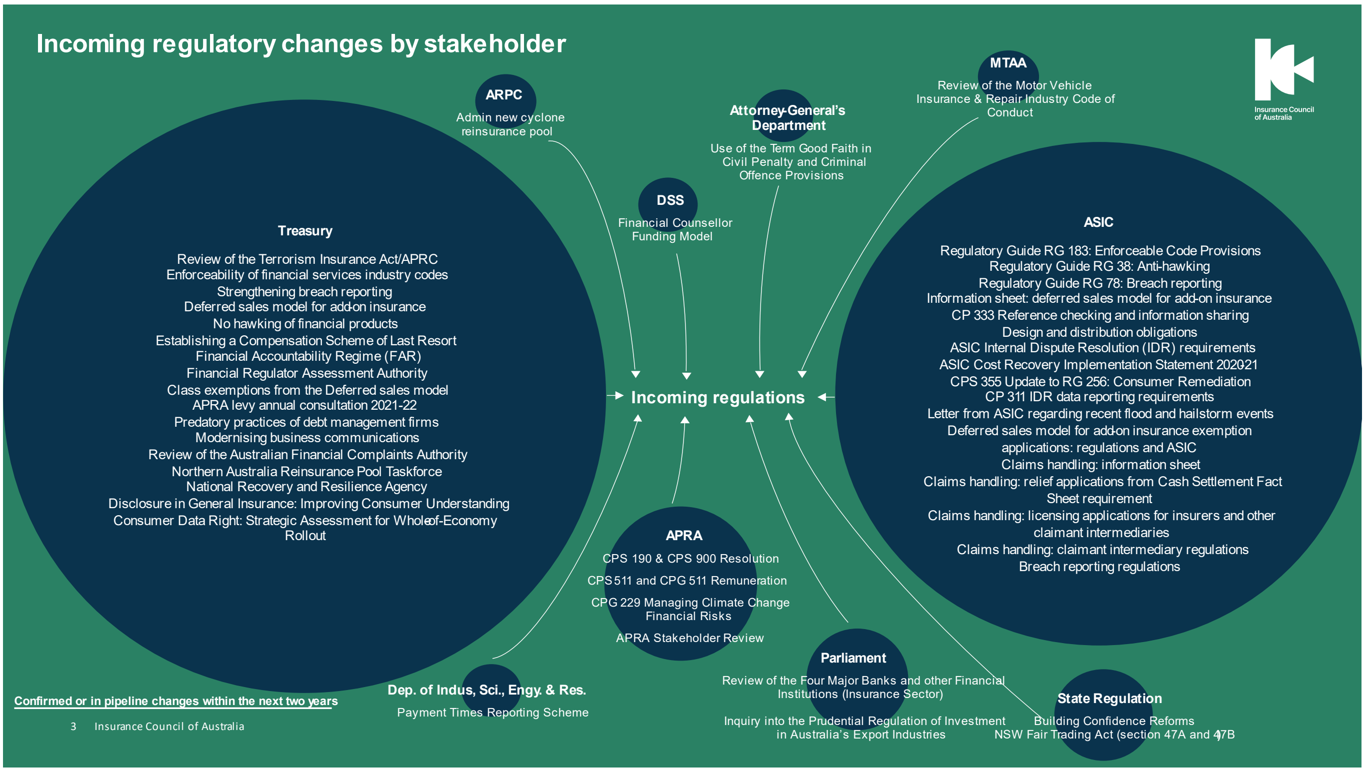
[2] Government Response to the Financial Services Royal Commission 2022



Cyber Insurance

Recent high-profile cyber incidents have proven that all Australian businesses are exposed to cyberattacks that can have devastating consequences for businesses and their customers. These and other incidents highlight the importance of ensuring adequate cybersecurity and minimising the impact of any cyberattack through response and recovery planning.

Insurers who offer cyber insurance work with policy holders to improve cyber resilience often by providing advice on cyber security and for those that ultimately seek cover, through cyber governance assessments and incident response that includes technical and legal advice and financial support to contain the breach and respond to the consequences.

Despite past efforts to improve standards, the cost of claims continues to rise, making cyber insurance less affordable for many businesses. Businesses without cyber insurance can still improve their resilience, and some will have the benefit of advice from insurers, however, many businesses still underappreciate the risk they face.

There is an opportunity for the government to drive improvements across business in cyber resilience. This would not only reduce the cost of cyberattacks to businesses and their customers but also make cyber insurance more accessible.

The ICA also welcomes the announcement by the Minister for Cyber Security of plans to develop a new Cyber Strategy. Cyber resilience as an opportunity respond to recent changes in the environment.

Overlapping Reporting Requirements for Cyber Incidents

The overlapping demands from ACSC and APRA are compounding resource pressures for insurers, in a historically tight market.

A notable example is the duplication of cyber incident notifications. Following the recent expansion of the Critical Infrastructure Act to financial services, the industry must report cyber incidents to ACSC. APRA requires insurers to notify of a range of incidents including cyberattacks. Given the established role of APRA as the regulator of the insurance industry, a single integrated notification arrangement would reduce the regulatory burden on the industry. The best use of government and private company resources is to limit the duplication of reporting requirements on an already constrained economy.

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission, please contact Paul Myers Senior Policy Advisor

Yours sincerely

Andrew Hall
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