

Mr Chris Sayers
Assistant Commissioner
Regulation Benchmarking Study
Productivity Commission
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Dear Mr Sayers

The Insurance Council of Australia Limited¹ welcomes the opportunity to participate in the Productivity Commission's study into *Performance Benchmarking of Australian Business Regulation* and strongly supports the Inquiry's objectives. We view this study as a very important initiative of the Council of Australian Governments (COAG) and a vital step to ensure informed debate on the issue of regulatory burden.

Regulatory Burden

The General Insurance industry is subject to a significant level of regulation. At a recent industry conference, a General Manager from APRA stated that the Australian insurance industry is one of the most heavily regulated in the country, from compulsory regulation to self-imposed industry regulation.

Regulation of our industry, whilst primarily at the Federal level, also extends to State level regulation for what are known as statutory classes of insurance – Workers Compensation, Compulsory Third Party Motor Insurance (CTP) and Home Warranty Insurance.

Insurance Council members informally report compliance costs between \$5 million and \$60 million per year, depending on size, and have indicated that compliance today consumes between 10% and 25% of senior management and board time – time that could otherwise be used on strategic business development and innovation.

¹ The Insurance Council of Australia Limited is the representative body of the general insurance industry in Australia. Our member companies represent more than 90 percent of total premium income written by private sector general insurers.

Insurance Council members provide non life insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisation (such as product and public liability insurance, workers compensation, commercial property, and directors and officers insurance).

Insurance Council members, both insurers and reinsurers, are regulated and licensed by the Australian Prudential Regulation Authority (APRA) and are a significant part of the financial services system. Recently published statistics from APRA show that the private sector insurance industry generates direct premium revenue of \$22.9 billion per annum and has assets of \$81.5 billion (*refer APRA, Half Yearly General Insurance Bulletin, December 2005*). The industry employs approx 100,000 people (IBISWorld 2005).

Australian general insurers issue more than 42 million insurance policies annually and deal with 3.5 million claims each year (*refer APRA, Selected Statistics on the General Insurance Industry, Year Ending June 2002*). On average, about \$65 million in claims is paid each working day.

Regulatory Process Benchmarks

An effective benchmarking process has the potential to create real economic efficiency gains for Australia through integrating the current view supporting the elimination of unnecessary or inefficient regulation within the systems and processes of governments and regulators.

It is of primary importance to the Insurance Council to ensure that:

- There are effective and efficient processes for developing and assessing regulation that incorporates cost-benefit analysis, effective consultation and post implementation reviews;
- There is clear accountability on the part of regulators tasked with implementing and monitoring regulation; and
- That duplication and inconsistencies between jurisdictions or regulators are eliminated unless there is a strong justification.

In particular, the Insurance Council submits that the benchmarks should look at best practices in:

- Regulatory development and review process;
- In regulatory design;
- Regulator accountability and efficiency, including the elimination of overlap in responsibilities between regulators; and
- Process to assess whether regulatory objectives are achieved.

Inter-jurisdictional Benchmarks

In addition to benchmarking best practices in regulatory processes across jurisdictions, the Insurance Council submits that one of the most important benefits that could come from such a process would be the harmonisation of regulations across jurisdictions and the elimination of areas of overlap and duplication between State/Territory and Commonwealth regulation. This is particularly important in General Insurance where, as previously observed, State and Territory governments provide regulatory oversight in statutory classes of insurance.

In the absence of national schemes for Workers Compensation, CTP and Home Warranty, there are significant efficiency benefits for business and insurers from harmonisation of administration and scheme design. This is in addition to the benefits to individuals in terms of equity and decreased complexity that comes from having harmonisation of benefits, particularly in the area of personal injury compensation.

The Insurance Council therefore submits that priority should be given to benchmarking statutory schemes across the various jurisdictions.

Compliance Burden Benchmarks

We believe that the other major aspect of such a benchmarking exercise would be to assess the regulatory burden on the business community as a whole and on particular industry sectors.

The Insurance Council submits that the financial services industry should be included as a particular sector in the benchmarking study based on the importance and impact of the sector on the economy as a whole. Reasons behind this are outlined in Section 2 of the Access Economics report².

In determining an appropriate benchmark to measure the compliance burden, it will be critical to balance the costs associated with collecting the information and the value of the benchmark. It is important that the benchmarking process not become a significant additional cost burden to industry without a clear benefit to industry in the form of more efficient and cost effective regulation.

The ideal benchmarks may be more of an aggregate nature than measuring the actual cost of regulation. For example, in financial services the primary objectives of regulation are: (i) to promote consumer protection through effective information disclosure ensuring institutional solvency; and (ii) to support market efficiency and effective competition. These elements could be measured through consumer confidence surveys, some form of aggregate productivity measures (input per unit output) and measures or indices on industry concentration, such as the Herfindahl index from the United States.

Conclusion

The Insurance Council looks forward to working with the Productivity Commission on the next stage of this important initiative, in particular in developing an appropriate benchmark measure for financial services.

Please do not hesitate to contact Carolyn Conner, General Manager Policy – Regulation Directorate with the Insurance Council if you have any questions or would like to follow up on any matters raised in this letter. Carolyn can be reached at 02 9253 5121 or cconner@ica.com.au.

Yours sincerely

Kerrie Kelly
Chief Executive Officer

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² The Insurance Council, as part of its membership in the Finance Industry Council of Australia, has commissioned Access Economics to prepare a report on the Terms of Reference for the Study. A copy of this report is attached to this letter.