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Regulatory and prudential shifts needed to strengthen general insurance sector

The Insurance Council of Australia (ICA) says the Financial System Inquiry must focus on more efficient industry regulation, less restrictive prudential requirements and significant tax reform to improve the insurance sector's contribution to Australia's economy.

In its 33-page submission to the inquiry, the ICA says an excessive emphasis on prudential supervision can impact on insurance market efficiency and consumer prices. The submission emphasises the importance to the efficiency of the financial system of allowing insurers to price to risk.

The ICA argues governments should not intervene with policies that lead to the mispricing of insurance and the distortion of market efficiency.

It also urges a level playing field in regulation, including mandatory disclosure applying equally to aggregators as to directly licensed financial entities such as insurers. The FSI would be well placed to insist upon requirements to disclose commissions and payments payable when products are featured on comparison platforms.

"The insurance sector has the potential to bear more risk in the economy but the current regulatory and prudential settings are preventing insurers from taking on this risk or new risk," Mr Whelan said.

"With the right settings – such as relaxing prudential demands, reducing duplication between government regulators and taking away the drag on efficiency by eliminating taxes on insurance – insurance businesses can intermediate more risk.

"Insurable risk can never be eradicated other than with mitigation. The challenge is to get risk allocated at the lowest cost to society – our submission outlines the broad principle that risk should rest and be managed by those best placed to do so."

On affordability issues, the ICA's submission to the Financial System Inquiry contends that ad hoc policy efforts that result in mispricing of insurance for the purpose of helping governments achieve social objectives only serve to distort efficient insurance markets.

"Compromising an insurer's ability to price risk accurately undermines the incentives for individuals and businesses to make sensible decisions in the light of the risks they actually face," Mr Whelan said.

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Editors note: The Insurance Council of Australia's submission to the Financial System Inquiry is available at [ICA submissions](#)

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