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**SPEECH TO INSURANCE COUNCIL OF AUSTRALIA FORUM**

**FRIDAY, 17 FEBRUARY 2017**

Thank you for that warm welcome, Michael. And thank you also to Rob Whelan for the invitation to be with you today and to address you this morning. It really is an honour to be invited to speak with you and I know this forum, over the years, has been a significant place to discuss issues facing the insurance industry.

The Insurance Council of Australia is the voice of the general insurance industry, and it plays a crucial role in informing governments and oppositions as we consider policy that affects the industry.

And this is a sector that is crucial to Australia. Businesses rely on you to manage their risk. Travelers rely on you to help them out when a holiday goes awry. And then there is the fact that, every day, you meet ordinary Australians at the worst moments of their lives and try to help them rebuild. Australians take out insurance in the hope that they'll never have to rely on it, but when the worst happens they turn to you.

When preparing my remarks I thought back to one of my earliest memories being a minister in the ACT Government. It was 2003 and it was a hot Canberra summer, similar to the one we are experiencing now. Many of you in this room will be familiar with the tragic events that occurred in Canberra that January, where bushfires ripped through parts of the city, killing 4 people, injuring hundreds and destroying over 500 homes.

It was at this point that the value of insurance on a mass scale became very real to me. Canberrans who were traumatised and who had been left, in many cases with nothing, turned to their insurer and expected support, finances and answers on how to rebuild their lives, literally from the ground up. And for many of them the reality of underinsurance hit hard.

It must be said, that these large scale disasters are always going to present issues and there will always be cases where people feel aggrieved, however, it would be remiss of me not to acknowledge the significant role that insurers played in rebuilding chunks of suburban Canberra following that time.

Since 2003, unfortunately we have seen this kind of experience many times across the country.

**Disaster Mitigation**

But of course, the time for action is not just after disasters occur, but before they occur again. To this end, in the ACT we did take proactive steps to improve land use planning, building standards and community awareness.

Federally, Labor has a record of taking proactive steps to reduce the impact of disasters.

In government, we invested in mitigation, most notably measures to reduce flood risk, as part of our National Insurance Affordability Initiative. We also established a National Insurance Affordability Council to coordinate flood risk management and to look at mitigation work and reducing natural disaster insurance premiums. Unfortunately, this council was abolished by the current government.

We recognise that disaster mitigation is an issue of ongoing significance to the industry. I know that the industry was disappointed with the government's response to the Productivity Commission's Inquiry into Natural Disaster Funding Arrangements, with regard to disaster resilience and mitigation measures.

It was at last year's forum that the Government released the Northern Australia Insurance Premiums Taskforce Report. This report was spurred by rising premiums in those parts of northern Australia with a high risk of cyclones. It found that mitigation was the best and most realistic way to reduce premiums on a sustainable basis.

Despite the Government promising a detailed response by 30 June last year, the response has yet to be delivered.

I wanted to recognise that some insurers have already acted on recommendations in the report by developing insurance pricing systems that provide greater recognition of mitigation action.

This is an area in which Labor is continuing to be engaged. We are willing to work with the government on this issue.

### **Labor's vision for the financial services sector**

I also wanted to speak to Labor's vision for the financial services sector. The 2009 Johnson Report set out what our financial sector has to offer the world: a skilled workforce, a solid legal and regulatory framework, and a competitive sector that offers a wide range of products, including through our advanced insurance industry.

Labor continues to support the Johnson Report's vision of enabling our financial sector to take full advantage of the opportunities in our region.

Many of the recommendations in this report remain incomplete.

However, as Chris Bowen, the Shadow Treasurer has said, we are willing to work with the government on these measures and on measures that look to reduce any new and emerging barriers for our financial services industry.

### **State Insurance Duties – The ACT Experience**

One of the recommendations in the Johnson Report was the removal of state insurance taxes. This is something that the ICA has consistently called for.

And yet, according to a recent report from the Financial Services Council, reform on these taxes has actually gone backwards since 2009.

Maybe that's not surprising, given the challenges that are facing state budgets, but it is something that we were able to address in the ACT, and so I want to reflect briefly on my experiences reforming insurance tax there.

In addition to the Johnson Report, the inefficiency of state insurance taxes has been flagged in a number of reviews including:

- The 2010 Henry Review;
- The 2014 Financial System Inquiry;
- The 2014 Productivity Commission report into Natural Disaster Funding Arrangements that I've already mentioned;
- And even the 2015 discussion paper from the government's now defunct tax white paper task force.

These reviews are consistent in highlighting how insurance taxes contribute to underinsurance, and discourage people from taking out an appropriate level of cover.

The Henry Review also pointed out that *"Australia has high taxes on insurance, both in comparison to taxes imposed on other products and industries, as well as compared to other countries"*.

There's also an equity dimension. The Henry Review found that *"[l]ow-income earners are more likely than high-income earners to abandon insurance in response to higher premiums. The result is that they bear more risk themselves, although they are less well-placed to do so than people with higher incomes."*

And then there's the confusion and red tape for business that operate across state borders. As the Johnson Report noted, *"the range and diversity of state taxes adds significantly to the cost of insurance, especially for those businesses operating on a national level."*

I was Treasurer of the ACT when the Henry Tax Review was handed down by the Federal Government in 2010. My thinking at the time was that we shouldn't miss this opportunity for reform, and so I launched our own ACT Tax Review, off the back of the section of the Henry Tax Review that looked at state taxation.

That review, the ACT one, endorsed the recommendation to remove insurance taxes in the ACT, which at that time included a 10% duty on general insurance premiums.

At the time, insurance taxes made up about 5% of the ACT's own-source revenue. It would have been difficult to address these taxes in isolation.

So what we did was to address it as part of – what some have called bold, others brave - 20 year program of tax reform that my government, when I was Chief Minister, announced in 2012, and has been continued by my successor Andrew Barr.

A key part of this 20 year program was to move our tax base from stamp duties on property transfers to a broad-based land tax. To date, this reform has eluded other states and territories. And yet, it's reform that has been recommended by economists, tax reviews, and even, as of late, by the Prime Minister and Treasurer.

It's a tax that's more efficient, and it's more equitable too, because it eases the burden on those looking to buy a home.

Crucially, it also provides a broader, more stable revenue base to State governments. This, I have to say, was a key part of my considerations when we went down this path.

And it was this broader, more stable revenue base that enabled us, as part of this tax reform package, to commit to phasing down of those duties on insurance.

I'm pleased to say this phase-down finished on July 1 last year when, right on schedule, insurance stamp duties in the ACT were completely abolished. That is, for premiums paid from 1 July 2016, the rate of stamp duty on home insurance, contents insurance, motor vehicle insurance, business insurance and life insurance in the ACT is nil.

This means that the ACT has become the first place in Australia where businesses are not burdened by insurance taxes; the first place in Australia where consumers are not discouraged from taking out the protection that they need.

But I have to say, that despite the benefits to consumers and businesses, there were challenges in delivering these reforms.

The phasing down of insurance taxes was at a time when premiums were rising across the country. This meant that the very real savings to consumers and businesses were less obvious than they might have been.

And then there was also the fact that, to date, the Labor Party in the ACT has had to fight and win two elections in the teeth of very negative opposition campaigns about the tax reform package overall.

Despite this, I think the ACT experience does provide a guide to other jurisdictions about how good reforms like these can be delivered even in the face of strong political and stakeholder opposition. And it shows that even in the current budgetary and political environments, when governments explain reforms and persist with them, they can be delivered.

It is in a similar vein that Labor has led the debate on reforms to superannuation tax concessions, working to make them fairer and more sustainable in the long run. And,

it is in a similar vein that Labor is calling for changes to negative gearing, and the capital gains tax discount.

There is a strong Labor tradition of pursuing and making the case for difficult reforms that are in the interests of the community as a whole. The abolition of insurance duties in the ACT, and the broader tax reform that has occurred there, fall very much within that tradition.

## **Consumer Protection in Insurance**

I wanted to speak for a moment about a number of issues of consumer protection which, as you know, are currently front and centre in the financial sector. I know this issue is on the radar of the insurance industry, including with the Review of the General Insurance Code of Practice that Rob has launched this morning.

I expect that the issue of consumer protections will be a focus of my work as Labor's spokesperson for financial services. To this end, Labor has established a Senate Inquiry into consumer protections in the banking, insurance and financial services sector. This is an inquiry that will continue through the year. It has broad terms of reference, and it will look into any areas where there are deficiencies or gaps in the protection of consumers or small businesses. And I know that the ICA and individual insurers will get involved in that.

As you know, Labor's policy is for a royal commission into the banking and financial services sector. This was not a decision that we took lightly, when it was made in April 2016. It was, however, a decision we took with a view to making sure that any systemic issues were examined in a thorough and transparent way.

While parts of the banking and financial services sector may disagree with us on the need for a royal commission, we do recognise the industry work that is going on to improve consumer outcomes.

### Effective Disclosure Taskforce

This includes the work that the Insurance Council of Australia are doing with their Effective Disclosure Taskforce.

This is the first of three issues of consumer protection in insurance that I just want to touch on briefly today.

Recent CHOICE research confirms that the most important thing that consumers look for with regard to general insurance is whether the insurance company will pay a claim when the time comes. Clear and simple disclosure will reduce the chance of customer disappointment when they make a claim.

The ICA's Effective Disclosure Taskforce is recognition of the importance of consumers being able to easily gain an upfront understanding of the insurance product that they are buying. Given the complexity of some products, this is not an easy issue to resolve. In launching the Effective Disclosure Taskforce in July 2015, the ICA noted that "[t]he insurance industry, governments and consumer

*groups all perceive the current disclosure regimen to being lengthy, often complex and not always helpful in ensuring consumers understand the product they are buying," .*

In late 2015, the ICA Board accepted all of the recommendations of the 'Too Long, Didn't Read' Report of the taskforce. The ICA is now in the process of implementing these recommendations.

I know this afternoon you have a presentation on the results of the major consumer research project undertaken as part of this process. This is important work in looking at the way consumers respond to disclosures, and how they can be best advised about what they're purchasing, and what they can expect when they make a claim.

I commend the ICA for this work and look forward to seeing it continue.

The second consumer protections issue I wanted to speak about is insurance investigations. This is an issue that has been raised with me in my short time in this portfolio. I know that the Insurance Council of Australia's Code Governance Committee is looking into how general insurers investigate claims and how their outsourced services compete, including the Financial Rights Legal Centre's 2016 report on insurance investigations.

While the need to guard against fraudulent insurance claims is clear, we can all agree that such investigations must be conducted in a professional manner that limits the impact on vulnerable claimants. They should be conducted in a way that allows genuine claimants to get back on their feet as soon as possible. We will continue to follow this issue and anticipate the Code Governance Committee's response.

### Add-on insurance

The third consumer protection issue that I want to speak about is that of add-on insurance: insurance products sold alongside other products, such as cars and credit cards. As you know, these products have sometimes been sold in very concerning ways. Sometimes they are sold on an opt-out basis, or with pressure applied at the point of sale, or to consumers who have no need for the product in the first place. These issues were reported in ASIC's Report 492, which looked at sales of add-on insurance through car dealers and found serious problems in that market.

I know that the industry has proposed a response of capping commissions at 20%, and that this is being considered by the ACCC, with I understand a draft determination issued this morning. I also know that the ICA is discussing further measures with ASIC and consumer groups. The final design of these further measures will be crucial to addressing this issue. There is a need to make sure that consumers fully understand what they are buying, and have the opportunity to properly consider whether it meets their needs.

### **Parliamentary issues**

Now if I can just touch on briefly of the issues that are currently on the parliament's radar.

As you all know – probably only too well - there are a number of reviews and inquiries relevant to the insurance sector at the moment. I have already mentioned our Senate inquiry into consumer protections.

#### Xenophon Inquiry

There is also a Senate inquiry looking into the costs and benefits of the establishment of an independent price comparison service for insurance products. This inquiry was moved by Senator Xenophon late last year.

While the aim of maximising competition and value for money for consumers is a good one, I understand that the industry has raised concerns around the difficulties in comparing products. They've raised the many differences between regions, risk ratings, loyalty bonuses and the coverage itself that such a service would have to navigate. Labor's keeping an open mind at this stage and will follow the inquiry as it considers the views that are presented before it and I'll continue talking with the insurance sector more broadly about this matter in particular.

#### Ramsay Review

The Ramsay Review into External Dispute Resolution Schemes is another one that we are watching. We know the crucial role external dispute resolution plays for both consumers and the industry in allowing disputes to be resolved in a quick and accessible way. Labor will be motivated by what will improve consumer outcomes, when we look at the Ramsay Review's report, due in March.

#### Terrorism Insurance Act

Changes to the Terrorism Insurance Act are currently before the parliament. As you know, the terrorism insurance scheme was established by government in 2001 to provide reinsurance for terrorism attacks: this was reinsurance that the market could not provide. This meant that public liability insurance and insurance for commercial property and associated business interruption could not extend to damage caused by terrorist events. The terrorism insurance scheme is designed to fill that gap.

The changes before the parliament are to put beyond doubt that the scheme covers attacks by chemical or biological means.

Since its establishment, the scheme, including the periodic reviews to ensure the continuing need for it, has enjoyed bipartisan support. This will continue with Labor's support of this legislation.

#### **Insurance and Mental Health**

Finally today, I would like to say a few words about the issue of insurance and mental health. This was an issue that was thrust certainly on to my radar back in

2015 as a result of the Ella Ingram case in Melbourne who felt let down by her insurer and took her case to the Victorian Civil and Administrative Court.

I note that the VCAT did find in Ella's favour. They made this decision on the basis that she had been discriminated against when her insurer refused her travel insurance claim while on a trip overseas.

I think the VCAT decision has prompted a positive move in the insurance industry to think about how travel insurance products might be developed in a cost effective manner that also meet the needs of those who are living with a mental illness.

Last year my predecessor in this portfolio, Jim Chalmers, and I, when I had the shadow mental health portfolio, hosted a roundtable on this issue. We brought together representatives from the insurance industry, including the Insurance Council, peak bodies in the mental health sector as well as consumer advocates and community legal groups to all discuss how progress could be made. I am pleased to note that progress, although its limited to date, was made following that meeting.

And can I just say I do very much acknowledge that this issue is not a straight forward one, nor something that can be resolved overnight.

But we also know mental health affects 1 in 5 Australians, the trajectory is not a positive one, and a CHOICE investigation recently found that only two insurers had products that offered travel insurance policies to those who are living with a mental illness.

While I do acknowledge that there are a very small amount of products on the market, they do not cover people in the same way as those taking out travel insurance with medical cover and fall ill or sustain a disability of a physical nature.

The unique nature of mental illness presents insurers with a significant, but in my opinion, not insurmountable challenge, to develop cost effective products that meet the needs of the customer and open the world to them through travel while at the same time remaining profitable.

This is something that I believe we need to continue to work together on to arrive at a position which will address some of the challenges people with mental illness face but also insurers as well.

I valued the willingness of the industry and the consumer advocacy sectors to work constructively on this issue at the roundtable last year, and I hope that can continue now that the turmoil of the election year has settled.

I know that you will hear about the ICA's latest thinking on this issue in a session this afternoon.

I would also like to say that not all of the work rests with the industry.

I have written to the minister asking for the government to consider the option of commissioning the Government Actuary to undertake work that would better assist the industry in developing products that are based on solid and reliable data.



The minister, in her response, assured me that the Insurance Council of Australia is working with the Actuaries Institute to undertake new work in this area. The Government has given an undertaking that it will keep an eye on this work and wait to see what data can be generated as part of this partnership before commissioning any further work within government.

I know that, in its pre-budget submission, the ICA has called for the ABS to update the 2007 National Survey of Mental Health and Wellbeing, to provide reliable data.

I wanted to say that it was very heartening to see that progressing work on the issue of insurance coverage and mental health conditions, and that it is one of the ICA's top three priorities for this year's budget.

This work is something that Julie Collins as the Shadow Minister for Mental Health and I will watch and continue to pursue throughout the term of this parliament.

I know that there are many more issues to talk about with respect to the insurance sector. There is no shortage of work to do, problems to solve, reviews to take part in, or challenges to respond to. It's certainly a dynamic policy area - but fundamentally to me – it's an industry that is of crucial importance to Australians.

And so I thank you again for the invitation to speak with today – I look forward to continuing to work with the sector. I thank you for the investment you've already put into me, in training me up, on all of the issues I needed to be made aware of when I took on the portfolio six months ago and I look forward to pursuing that and continuing those relationships in the year ahead. Thank you very much.

**ENDS**

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