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SPEECH

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****CHECK AGAINST DELIVERY****

Good morning, everyone. And thank you to the Insurance Council of Australia for inviting me here today.

Let me start by saying: in our 'land of sweeping plains...of droughts and flooding rains' the insurance industry is crucial to our communities and wider economy.

You have a stake in the lives of millions of Australians with businesses and consumers spending around \$43 billion per year on general insurance premiums to cover assets such as their homes, contents and motor vehicles.

And not only are Australia's insurers important institutional investors holding total assets of around \$119 billion, your industry plays a pivotal role in helping our economy get back on its feet when natural disaster strikes.

Through all this, we see the Insurance Council of Australia continuing to play an important role as the leader and voice of your sector.

And today I welcome the opportunity to share a few thoughts on the challenges and opportunities for Australia's insurance industry in the year ahead.

Northern Australia Insurance

A couple of weeks before Christmas, I announced the Government's response to the Northern Australia Insurance Premiums Taskforce.

In a nutshell, the Government had asked the Taskforce to consider the feasibility of options to lower insurance premiums in areas subject to high cyclone risks.

The Taskforce found 'on average about 13 cyclones form in the Australian region each cyclone season, and typically about four cross the coast.'

The average annual damages caused by cyclones are about \$500 million per year. This amounts to many years of small losses and a few years of devastating, larger losses.

In its assessment of policy options, the Taskforce found that mitigation activities to reduce the risk of damage from cyclones are the only way to reduce premiums on a sustainable basis.

The Government accepts this finding, and whilst we will not intervene directly in the insurance market, we acknowledge the complexity of insurance affordability in northern Australia.

That's why we directed the Australian Competition and Consumer Commission (ACCC) to undertake a wide-ranging inquiry into the supply of residential building, contents and strata insurance in northern Australia.

The advantage of having the ACCC conduct the inquiry is that they have compulsory information gathering powers to get information that other reviews have not been able to get.

The inquiry is considering the competitiveness of markets, consumer access to information, regulatory issues and the key cost component for insurance pricing, especially catastrophe risk.

The inquiry started in July last year and will continue for three years, with a final report due to the Treasurer in November 2020.

The ACCC has been consulting with stakeholders, including communities in northern Australia and will continue to do so throughout 2018.

Senate Inquiry into General Insurance

In December, I also took the opportunity to respond to the Senate Inquiry into the General Insurance industry.

I announced that the Turnbull Government is looking to proceed with a set of important reforms to the insurance industry.

We see merit in the recommendations that place downward pressure on insurance premiums through increased accountability and transparency within the industry.

And we're taking a close look at proposals to increase consumer understanding of insurance.

Code of Practice

One of the key reforms involves ensuring consumers are treated fairly through the General Insurance Code of Practice.

The first General Insurance Code of Practice was introduced in 1994 and was one of the first of its kind in Australia – something not widely known about the insurance industry, and something, I think, the insurance industry is not given credit for.

The Code, as you all know, sets out the standards that general insurers must meet when providing services to their customers, such as being open, fair and honest.

The Code is designed to raise customer service standards in the general insurance industry, and to protect the rights of consumers.

It applies when selling insurance, dealing with claims, responding to catastrophes and disasters, and handling complaints.

The Code also sets out options available to policyholders in disputes. It provides timeframes for insurers to respond to claims, complaints and requests for information from customers.

The Code is binding on Insurance Council members, and compliance with the Code is monitored by the independent Code Governance Committee, and breaches are treated seriously – as they should be.

External developments, such as Senate inquiries, ASIC reports and reviews, have led to the Insurance Council of Australia undertaking its fifth review of the Code.

Each time the Code has been reviewed – in 1998, 2006, 2009 and 2012 – improvements have been made to ensure the Code remains relevant and meets the needs of consumers.

For example, after the Queensland floods and Cyclone Yasi in 2011, improvements were made to the catastrophe provisions in the Code in response to public feedback.

Cyclone Debbie now ranks as the second-most expensive cyclone in Australian history, and the most expensive cyclone to hit Queensland with \$1.67 billion in losses.

The industry's response to Cyclone Debbie claimants was the fastest on record, with over 96 per cent of claims closed and the closure rate for claims running at least 20 per cent ahead of any previous equivalent catastrophic cyclone.

The Insurance Council identified a number of priority areas that could be addressed in a revised Code in its Interim Report, released last November.

One of these is to improve the industry's standards on how it interacts with customers experiencing vulnerability, including those who are experiencing family violence.

More often than not women are at most risk here.

As not just the Minister for Revenue and Financial Services, but also as the Minister for Women – and with International Women's Day tomorrow – it is timely and encouraging that the Insurance Council's Board recognises the impact of family violence and that it is seeking to provide better assistance to victims.

Your members have been working with stakeholders on a draft family violence guidance document.

While many insurers already have policies in place to manage sensitive claims, the draft guidance outlines the areas that should be provided for in these policies at a minimum, such as:

- training for staff to identify and support customers;
- protection of private and confidential information;
- assistance to claimants affected by family violence;
- referrals to specialist family violence services; and
- providing support to staff affected by family violence.

Situations involving family violence require sensitivity and flexibility.

The issues are complex and acknowledging and dealing with them is uncharted territory not only for the insurance industry, but across most industries.

Ultimately the guidance, when finalised, will improve the experience of customers affected by family violence and also protect staff in the insurance industry in circumstances where, for example, they may have to contact a perpetrator of violence or require support as they are also affected by family violence.

In addition, the Insurance Council has established a Family Violence Working Group to provide advice on a number of family violence scenarios that raise issues of insurance law, contracts, family law, privacy and property law. This important work will continue outside of the Code Review process, and I commend you for it.

In December I called on the Insurance Council of Australia to expedite its important work in reviewing the Code.

The work being undertaken to review the code is important and it is important that it work in parallel with other external factors such the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Unfair contract terms

Another key reform involves extending the unfair contract term provisions to general insurance contracts.

The unfair contract term laws currently apply to standard form consumer and small business contracts.

I know that many of you here today have consistently advocated that there is no need to extend the unfair contract term provisions to insurance contracts, as you are of the view that there are already comprehensive consumer protections in place for insurance, such as the Duty of Utmost Good Faith provisions.

Yet, many outside the insurance industry disagree. For example, the Australian Consumer Law Review said extending protections to insurance contracts will 'address inconsistencies in the level of protection provided across all standard form contracts.'

It was also said that the change would bring Australian unfair contract terms protections in line with regulatory approaches in the United Kingdom and New Zealand.

That is why I think it is important that we need to consider this issue further.

We expect to release a proposal to consider extending unfair contract term protections to insurance for industry consideration soon.

I would certainly encourage the Insurance Council and your members to engage with the Government on this issue.

Understanding of insurance products

The Government is also examining options to improve consumer understanding of insurance products.

The critical point — as your own research has found — is that most consumers are confident they understand their policy, however, their actual understanding of specific policy exclusions and limits can be lacking.

We often see evidence of this after a disaster strikes when consumers are confronted with the reality that they are not covered by damage caused by the disaster.

I hardly need to tell you that it's a tough challenge to turn this around. It will take a concerted effort from industry and government but the commitment is there on both sides.

I note you've called for the role of insurance to be 'emphasised as an integral part of financial capability and sound financial decision-making.'

The Insurance Council's Understand Insurance financial literacy initiative has been successful with many groups in the community, helping consumers improve their understanding of insurance and helping them to make better decisions.

This is why I've asked ASIC to work with you to continue to develop options to improve consumer understanding of insurance products as part of their work on improving financial capability.

In 2018, we will see a new financial literacy strategy and it comes at an important time. Recent research into financial literacy found that 'around six in 10 Australians feel confident about managing their money, but more Australians find managing their money stressful.'

Consumers need to have more knowledge and understanding of insurance products. I have directed ASIC to work with you in providing better guidance to consumers on their insurance needs.

Improving disclosure practices

One of the fundamental values of the Coalition Government is freedom of choice — giving people control over their lives and money.

A lack of transparency or poor disclosure practices only spoils choice and makes it harder for consumers to make informed decisions.

That's why the Government is looking at ways to improve consumer understanding and access to information through greater transparency and enhanced disclosure practices in the insurance sector.

Again, we look forward to working with you on progressing this given the extensive work already done in this area under the stewardship of the Council.

I believe there's a real opportunity to develop sensible and worthwhile reforms in this area, and improve consumer trust and confidence in the insurance industry.

Add-on insurance

While I'm here, I'd also like to say a few words about add-on insurance sold through car dealers.

ASIC has announced a number of refund programs to compensate customers who were sold add-on insurance products with little or no value through car and motorbike dealerships.

In fact, ASIC's work will result in some of their largest ever compensation programs with consumers receiving refunds of around \$123 million.

While ASIC has brought about some outstanding results in this respect, I note the insurance industry has been working closely with ASIC on these matters, leading to better outcomes for consumers.

That's why the Government is consulting on draft legislation to give ASIC product intervention powers and to put design and distribution obligations in place.

It is critical that these reforms — that of course resulted from the landmark Financial System Inquiry— enhance consumer protections and make sure that financial products are targeted and sold to consumers who might benefit from them.

I am looking forward to working with the industry on these reforms as it has an important role to play in improving the information and products it provide to consumers.

Australian Financial Complaints Authority

In the area of external complaints, the Australian Financial Complaints Authority (AFCA) continues to take shape in 2018.

AFCA will provide consumers and small businesses with access to free, fast and binding dispute resolution services for all financial, insurance and superannuation complaints.

We're putting the governance processes in place to have the new Authority up and running no later than 1 November 2018.

Last week, I was pleased to announce that the Turnbull Government will appoint the Hon Helen Coonan as the inaugural Chair of AFCA.

Helen will bring a wealth of expertise and experience to the position.

And she is, of course, no stranger to the Insurance Council having been a regular at this very forum as Minister for Revenue and Assistant Treasurer in the early 2000s.

Following the authorisation of a not-for-profit company to operate the AFCA scheme, I intend to make my other appointments to the AFCA board in the near future.

Royal Commission

And, finally, it would be remiss of me not to mention the Royal Commission into misconduct in Australia's banking, superannuation and financial services industry.

PwC and other industry analysts have, of course, listed heightened scrutiny of financial services as a continuing theme for the year ahead, with much of the focus clearly on the Royal Commission.

On 14 December 2017, the Governor-General issued Letters Patent to the Honourable Kenneth Madison Hayne AC QC, officially establishing the Royal Commission.

The Government took this course of action to further ensure Australia's financial system is working efficiently, effectively and in the interests of consumers.

As I've said on countless occasions: all Australians have the right to be treated honestly and fairly in their dealings with their financial service providers.

Public submissions to the Royal Commission have already raised concerns about delays in claims handling in the insurance industry.

Due to the overlap with the remit of the Royal Commission, the work being done by Treasury to enhance ASIC's oversight of insurance claims handling will now be considered pending the outcome of the Royal Commission.

The Commission's public hearings will be theme-based and generally involve case studies, where evidence will be sought from affected consumers and the financial services entities involved with the conduct.

The first set of hearings for the Royal Commission on consumer lending will include a case study on add-on insurance.

The Commission will also inquire into the effectiveness and ability of Australia's financial regulators to identify and address misconduct.

A final report, containing the results of the inquiry and its recommendations, is due no later than 1 February 2019.

Closing remarks

So let me thank you, once again, for inviting me here today.

I'm delighted to be back at this forum – it has been a platform for progress over many decades.

Today I've provided to you the Government's perspective — the broad brush, if you like — on what is going to be another busy year for the insurance industry.

There are many issues in front of us at the moment but we haven't lost sight of the importance of insurance to consumers, their communities and the wider economy.

And perhaps the most the pleasing aspect is that your industry — via the Insurance Council of Australia — is making a considered, positive and valued contribution to each of those issues on their merits.

I'm sure that goodwill is set to continue throughout this forum and into the year ahead.

Thank you.

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