2019 NIBA Convention – State of the Industry

Thank you everyone and thank you to Dallas and the team at NIBA, for the opportunity and privilege to share some thoughts with you today on the "State of the Industry".

I bring a unique perspective to this question as someone who has served as the CEO of a single insurer, The Hollard Insurance Company, for the past 20 years. Indeed, this means I have had the pleasure of leading a start-up insurer, a medium sized insurer, and now, a large insurer. And, I have watched the industry change and evolve before my eyes for two decades.

I have also served as the President of the Insurance Council of Australia or ICA for the past 2 years – a period which coincided with the Financial Services Royal Commission. And, with it, the most remarkable and comprehensive review of our industry's legislative and regulatory environment. A period of in flux and further complicated by changing community standards and expectations.

All this, as well as a raft of issues that directly impact our industry such as climate change, the new International Financial Reporting Standard IFRS 17, cyber risks, disruptive technologies like AI and the 'Internet of Things', driverless cars, and interest rates falling to zero – or, heaven forbid, negative – to name a few, means that the "State of the Industry" is BUSY… **Very Busy**.

We have a lot on our plate. All stakeholders will need to work closely together if we are to navigate these challenges to ensure positive outcomes for our customers, for the many thousands of Australians that work in the industry and for the broader community.

I'll come back to the things keeping us all busy in a second. I thought I'd first take a very brief moment to update you on Hollard. It was incorporated in Australia in 1999 and, for the past 20 years, we have been growing the business one single customer at a time. Over the past 5 years, in particular, Hollard has enjoyed significant growth and we recently closed the 2019 financial year writing just over $1.2 billion of gross written premium making us a top 7 insurer in Australia based on premium written. And, this financial year, we are forecasting to grow our gross written premium to approximately $1.4 billon.

Recently ANZIIF honoured us by awarding us the Large General Insurance Company of the Year for 2019.

We have built our business by focussing like a laser on 4 key segments of the market or, on what we call, "Hollard Strategic Pillars". These are Personal Lines, Pet Insurance, Commercial Insurance and New Zealand. All save for our pet insurance pillar work closely with insurance brokers. Hollard Commercial Insurance deals exclusive with brokers. Indeed, we see brokers as an indispensable component of the insurance value chain and Hollard has, as you are probably aware, launched its "Long Live the Broker" campaign as a symbol of our commitment to the insurance broker channel. In fact, if you look carefully, you might notice that I am wearing the unique "Long Live the Broker" socks today!

As I reflect on the state of the general insurance industry, I see a well-regulated, well capitalised, innovative, and competitive industry. I see teams of people striving to exercise their social licence responsibly and learn the lessons of the Royal Commission. I also see an industry that earns an adequate, although by no means exciting, return on the capital deployed.

By international standards, the industry is "top-heavy" in that the two largest insurers have a substantial market share – especially in personal lines. I also see an industry that has been growing at a rate far in excess of the growth in the over-all economy – in short, every year, our industry plays a bigger role in the Australian economy. And, that is a good thing because market-based economies rely on individuals and corporations to take risk by deploying capital.

A properly functioning and robust insurance market increases that capacity for capital to be deployed and is therefore central to economic growth

I also see an industry that is simultaneously facing an array of challenges and uncertainty including around changing community standards and consumer expectations, a 24.4% gender pay gap, changing regulatory expectations, changing weather patterns, a slowing economy, the explosion of "big data" and the fourth industrial revolution. It is a lot to deal with and it means that executives and Boards have their hands full and are currently grappling with how best to prioritise all these workstreams.

In short, we are BUSY… **Very Busy** and we are staring into a period of unprecedented change that could turn the industry on its head – creating winners and losers on, potentially, an unprecedented scale. It truly is, by equal measure, both a challenging and exciting time to be in the insurance game.

Before I get into how we might address some of the challenges we are facing into, let's take a moment to reflect on what is working.

Firstly, our general insurance industry is well regulated. I realise that this may not be a fashionable opinion, but I believe that the facts speak for themselves. Since the collapse of HIH and the appointment of APRA as the prudential regulator for general insurance, there has not been a single meaningful insolvency in the Australian general insurance industry.

Indeed, for two decades, which saw both the Global Financial Crisis and the remarkable period in 2011, when the weather tested us in an unprecedented way, Australian insurance companies have reliably been there to pay claims. For those of you who remember the collapse of HIH, and the chaos that HIH's collapse unleashed on the community, this is a remarkable achievement for which APRA does not get enough credit.

We also have a competitive market with regular new market entrants and a number of so-called "challenger brands" and major international insurers all competing actively in the market and taking market share each year. In the past 20 years, companies such as Hollard, Auto & General, RACQ, CommInsure, Youi, AIG and Chubb, among others, have all become substantial market participants.

Australia also continues to be one of the strongest global markets for Lloyd's – punching well above its weight. Indeed, the global insurance industry has long considered Australia an important jurisdiction in which to deploy capital.

Our industry has recently been subject to an unprecedented deep dive into its misconduct and conduct below customer expectations in the form of the Financial Services Royal Commission led by Commissioner Hayne. Most key industry participants have also undertaken an internal review of their governance, accountability, culture and management of non-financial risks. These reviews have uncovered areas where we, as individual companies and a collective, can and must do better. Let's acknowledge these shortcomings and accept that there is much work to be done.
However, it is also very important to remember that Commissioner Hayne, after conducting arguably the most thorough review of misconduct in the financial services sector's history, found "no systemic misconduct" in the general insurance industry. I wonder how many other industries could say that!

So, what can the industry do to address changing community expectations? The ICA has, for a number of years, been engaging with key regulatory and consumer stakeholders about the development of a revised General Insurance Code of Practice (or New Code). We believe it will go a long way to addressing community expectations as well as demonstrating the efficacy of self-regulation. The ICA Board will be meeting on 31 October with a view to approving the New Code.

The New Code focuses on vulnerable customers. It includes important new provisions focussing on mental health and, importantly, a requirement for insurers to implement a domestic family violence policy. Our industry can rightly be proud to play a role in addressing these two national crises.

The New Code will become mandatory following ICA Board approval and a likely 12-month transition period commencing 1 January 2020. The only exception to this will be the provision requiring members to implement a "Family Violence Policy" for customers, which will have a 6-month transition period. This earlier implementation time is another strong message from the ICA Board about the importance to the industry in prioritising our collective response to domestic family violence.

The New Code will, for the first time, include a community benefit payable by members of up to $100,000 as a sanction for significant breaches – a strong message from the ICA Board that industry self-regulation should have meaningful sanctions.

The ICA has indicated it desires and will seek ASIC's approval of the New Code. This will follow after industry first reviews the Government's (still pending) enforceable code provisions legislation which it indicates will be released by 30 June 2020.

Developing the New Code in a period of regulatory uncertainty following the Royal Commission has been like "pitching a tent in a hurricane". However, the ICA is determined to move forward and I thank all our members for embracing this challenge, despite the complexities, so wholeheartedly.
In addition to the New Code, the ICA team has been in active discussions with Treasury to facilitate industry's response to the tsunami of new legislation and regulations coming our way in response to Commissioner Hayne's recommendations. These reforms are designed to address adverse customer outcomes and they include:

- Design and Distribution Obligations and Product Intervention Powers;
- The extension of "Unfair Contract Terms" to general insurance;
- Regulation of claims handling as a "Financial Service"; and
- A deferred sales model for Value Added Products.

I won't speak to each of these because Mark Radford will be addressing the conference tomorrow. However, let me be clear – our industry is completely in support of the Government's efforts to implement all these regulatory changes. However, we will be voicing a clear view that they must be introduced in a considered and thoughtful way which does not impose greater costs on the community than the benefits they are intended to achieve.

We will be arguing that these decisions should not been seen as horse trading between "customers" versus "shareholders". Rather, a trade-off between one customer cohort against another – remembering that the industry currently earns an adequate, but not excessive, return on its capital.
To highlight this, I'll share a few industry details. In FY 2019, the industry, which consists of roughly 100 general insurance companies, made a profit of $3.8 billion (including significant reserve releases from prior periods) on just under $30 billion of capital. Now, $3.8 billion is unequivocally a lot of money. However, in a broader financial services context this figure constitutes just over one month's profit for the big 4 banks.

In terms of trade-off, for example, if claims handling as a "Financial Service" is extended to all suppliers and subcontractors in every claims supply chain scenario, insurers will have more incentive to cash settle claims and less incentive to underwrite risks in rural and regional areas where the costs of compliance may be higher.

Separately, Treasury recently released draft legislation to extend “Unfair Contract Terms” protections to insurance contracts. This followed recommendation 4.7 of Commissioner Hayne’s Final Report and encapsulated a narrow definition of “the main subject matter” of the contract.

The ICA responded highlighting the commercial uncertainty created by this approach. Indeed, if insurers cannot rely on contractual terms that define the risk held by the insured then insurers may respond by increasing premiums or reducing cover.

Ultimately, these are community choices that to some extent are debates between the rights of the individual versus the rights of the community. It seems to me that community consensus following the Royal Commission was that we needed to reduce the number of adverse policyholder outcomes and have everyone pay a little more for the insurance to fund it. That is a community choice.

But it is not just regulation that is keeping us busy. A changing statutory landscape is merely one of our challenges. Let’s consider some others.

The economy is clearly stuck in first gear despite record low interest rates. Low growth means fewer people buying homes and cars and starting businesses which, in turn, means fewer assets for us all to insure. This creates a growth challenge for our industry that will require product innovation or cost cutting to maintain margins.

Cost cutting seems to be in vogue. Low interest rates are great for borrowers, not great for saving and not great for the insurance industry. Simplistically, we collect premiums today and pay claims in the future so we like interest rates that allow us to earn a “float” on collected premiums before we pay claims. But, heaven forbid, what happens if interest rates fall below zero? In other words, if you have to pay the bank to deposit your money. As ridiculous as this sounds, it is worth noting that in some countries (including well managed economies like Germany and Switzerland), we have recently seen negative interest rates. If this were to happen in Australia, could we foresee a situation where insurers are asking brokers to extend payment terms?

Another major complexity for the global insurance industry is climate change. And, while the issue is sensitive politically, it is absolutely clear that robust industry data on the impact of weather losses is aligning with climate science. Evidence abounds in support of claims our planet is warming because of increased carbon emissions.

Climate change creates complexity for insurers because, to some extent, it reduces the reliability of our past data on claims as a tool for predicting future losses. And, changing weather systems may well make certain regions more exposed to storm, flood or bushfire thereby potentially making parts of Australia uninsurable.

For this reason, the ICA has supported the findings of the Productivity Commission which recommended the Commonwealth invest at least $200 million a year (matched by state and territory governments) on infrastructure to make our communities more resilient. The return on this investment is excellent.

And when done effectively, as in the case of Roma, the uninsurable becomes insurable and insurance prices fall. On this note, I am proud to say that both Hollard and the ICA have recently each committed to achieving towards carbon neutrality.

I have spent the past half an hour sharing the numerous challenges that are keeping us busy. In so doing, I fear that I have painted an overly negative picture. That was certainly not my intention. In fact, I am confident that there is a lot to be optimistic about – for insurance brokers, for Hollard and for the industry as a whole. It won't be easy. Stakeholders will need to work together, and we'll need to push hard to bring (and keep) the best possible talent, especially female talent, into the industry if we are to successfully face into the challenges ahead.

My optimism is based on the human truth that we all want to do something meaningful in our lives. And, we see thousands of professionals in our insurance community do that every single day. Our day job is to rebuild our customers lives when they need us the most and, in doing so, make communities across our wonderful country more resilient.

In the past 12 months alone, the industry has poured $2.5 billion dollars of claims payments into the catastrophe effected areas of NSW and Northern Queensland. We have employed thousands of local trades people and local businesses – allowing devastated communities to get back on their feet. To be able to do something that matters, to help people and communities everyday – that is a huge privilege.

I urge all of us to recognise the remarkable opportunity on our very doorstep to meet (if not exceed) our customers' changing expectations. To make a significant and enduring difference in the communities in which we work and live.

And, in doing so, to appreciate what an honour and unique privilege we share as a result of our career in insurance.