



THE HON JOSH FRYDENBERG MP
ASSISTANT TREASURER
FEDERAL MEMBER FOR KOOYONG

SPEECH

**KEYNOTE ADDRESS TO THE INSURANCE COUNCIL OF AUSTRALIA
SYDNEY
27 FEBRUARY 2015**

*****CHECK AGAINST DELIVERY*****

Thank you for inviting me to deliver the keynote address to the 2015 Insurance Council of Australia Regulatory Update.

The Insurance Council has an important role as an advocate, partner and educator in addressing key issues in the general insurance industry.

Our shared goal is to deliver the best possible outcomes for Australian businesses and households, which rely on the services provided by general insurers.

General insurers play a vital role in the Australian economy. Australian businesses and consumers spend around \$30 billion per year on general insurance premiums.

For individuals, insurance helps shield them from financial losses caused by accidents and disasters. It gives them the peace of mind to make important purchases such as the family home.

For businesses, insurance fosters investment and innovation by providing greater certainty.

And for the economy in general, Australia's insurers are also important institutional investors, holding assets of around \$110 billion.

The Australian general insurance industry is well-placed to provide these services, holding almost twice the level of capital required by regulation.

THE GOVERNMENT'S ECONOMIC REFORM AGENDA

The Abbott Government has a wide-ranging economic reform agenda.

Getting the budget back on track to a sustainable surplus is critical.

Currently, our outlays exceed our revenue by over \$100 million each day. We are paying \$40 million a day in interest payments on the resulting debt. This is unsustainable.

Last year's Budget, if implemented in full, would put us back on track. We need to ensure that Australia has a strong fiscal position so that it can weather the next global economic shock.

As a country we must insure ourselves against a rainy day.

The next Intergenerational Report will be released shortly. It will facilitate a conversation with the Australian people on the challenges our nation faces over the next 40 years.

This will be followed by the commencement of the Tax White Paper process which is of key interest to your sector. Other key processes underway include the Federation White Paper, the competition policy review and responding to the Financial System Inquiry.

Today, I want to talk in more detail about:

- insurance affordability in North Queensland,
- the Tax White Paper,
- cutting red tape,
- the Financial System Inquiry, and
- terrorism insurance.

NORTH QUEENSLAND HOME INSURANCE AFFORDABILITY

Insurance affordability in North Queensland is a critical issue for the Abbott Government.

Home and contents insurance premiums increased by 80 per cent for North Queenslanders in the eight years to 2012-13, compared to around 45 per cent in Brisbane and around 12 per cent in Sydney and Melbourne.

Average premiums for combined home and contents insurance in North Queensland are around 1- and-a-half times that in Brisbane and 2-and-a-half times those of Sydney and Melbourne.

Annual premiums for a home building and contents policy can be as much as \$20,000 for properties exposed to high cyclone risk.

I acknowledge the analysis of the Australian Government Actuary which showed that natural disaster risk – and in particular cyclones - is likely to be the predominant driver of these price increases.

A fact that is all too real for communities in the Rockhampton, Yeppoon and Mt Moran regions of Queensland following Cyclone Marcia. And the East and West Arnhem regions of the Northern Territory following Cyclone Lam.

Our thoughts are with all those affected by these events, especially those who have lost their homes and businesses.

I thank the insurance industry for its rapid response to this disaster, including having four insurers with teams on the ground in Queensland.

Government initiatives on North Queensland insurance

High insurance premiums in North Queensland create a public policy issue. High premiums can lead to underinsurance, which can be devastating to communities who suffer a natural disaster by making it even harder to rebuild and regroup.

There would be outrage if similar premiums were paid in Sydney and Melbourne.

I understand that these are difficult issues for industry to address by itself.

The Government is taking action to address the high cost of home and contents and strata property insurance in North Queensland through initiatives announced by Senator Cormann last October.

First, an insurance website is being developed to assist consumers in North Queensland to compare indicative prices, product features and complaint handling procedures of insurance policies.

ASIC is developing this website in consultation with the insurance industry, and expects it to be operational next month. The Government is fully committed to having this website operational by the end of March and I expect and encourage the industry to cooperatively work with us towards achieving this timetable.

I recognise the website has raised some industry concerns; for example, some are wary that it may place undue emphasis on prices over policy features.

ASIC is committed to addressing these issues, as am I. As most of you know, ASIC has been working closely with insurers and the Insurance Council to make sure that concerns about the site are taken into account.

Following the website's commencement in March, ASIC will continue to consult closely with insurers and the Insurance Council on the collection of data, and its publication.

Once the site has had a chance to operate, I am very open to receiving feedback on how it can be improved to ensure it is serving consumers as intended.

The second initiative is to clarify that it is possible to access policies offered by unauthorised foreign insurers through licensed brokers where better terms can be obtained offshore. These terms include where a better price is on offer.

I will shortly consult the industry on any necessary changes that may be required to implement this measure. I am very conscious of the potential risks that could arise from this policy if not properly implemented and will consult carefully with the industry.

It is also important to note that businesses and households can take proactive steps to mitigate the harm caused by adverse events through preventative strategies. Governments and insurers can work together to assist consumers through the provision of information on how best to manage and reduce risk.

A third project to improve outcomes for households in North Queensland is an engineering assessment programme for strata properties. This programme will improve the available information on a building's susceptibility to weather damage, and on ways to make properties more resilient.

The Commonwealth Treasury is working with the Queensland Government to develop an agreement to implement this programme for all strata properties in North Queensland.

These initiatives aim to tackle the high cost of insurance in North Queensland.

I acknowledge the work of CGU in this regard. CGU currently has its own strata resilience project in place, designed to deliver insurance savings for households in North Queensland.

CGU's strata resilience project won the 'highly commended' award in the private sector category of the 2014 Get Ready Queensland / Resilient Australia Awards, which recognises the important role played by the project in improving disaster resilience across Queensland.

Further solutions

More needs to be done to address this issue.

Industry has an important role to play in designing more flexible products to better meet the needs of North Queenslanders. It is better for individuals to have some insurance cover than none at all.

A longer term solution to the issue of insurance affordability in North Queensland needs to be prioritising mitigation.

This must include improvements to building standards which are the responsibility of State and local governments.

The Commonwealth Government is considering natural disaster funding arrangements following the Productivity Commission's inquiry into the matter. This work is being led by my colleague the Minister for Justice, the Hon Michael Keenan, who is responsible for emergency management.

As part of its inquiry, the Commission was asked to look at the risk management measures available to and adopted by individuals, business and governments, including insurance. The Government is currently considering the Commission's final report.

The reforms contemplated by the inquiry are complex and wide-ranging, and the Government is considering the recommendations thoroughly before responding. The final report will be made publically available once it is tabled in Parliament – by the middle of the year.

I would also like to recognise the work of the Australian Business Roundtable for Disaster Resilience and Safer Communities. I acknowledge their important contribution to the policy debate on the role of governments in funding disaster recovery and mitigation activities.

The Government looks forward to continuing to work with the Roundtable as we develop our response to the PC's recommendations.

State and local governments also need to understand their role in contributing to high insurance costs.

With home and contents premiums in North Queensland substantially higher than other regions in Australia, insurance stamp duties are an unfair tax on North Queensland.

This was an issue raised by insurers in their submissions to the Financial System Inquiry, and it has been picked up in the Inquiry's final report as a tax issue for consideration.

I strongly encourage the Queensland Government to consider how they can also assist in making insurance affordable for everyone.

REVIEWING THE TAX SYSTEM

The Government is carefully reviewing the tax system. We are looking for ways to make taxes lower, simpler and fairer.

This process provides an opportunity to consider taxes raised by all levels of government, including insurance taxes imposed by state governments. To facilitate consideration of both spending and taxation responsibilities across all levels of Australian government, the Tax White Paper is being run in conjunction with the Federation White Paper.

This audience knows better than most that insurance stamp duties are one of the most inefficient taxes in Australia.

They are inefficient because they add to the cost of insurance and can lead to under-insurance or non-insurance. This leaves people more vulnerable in the event of loss.

Numerous state government reviews – such as New South Wales’ 2011 Financial Audit and the Victorian Competition & Efficiency Commission’s 2012 Inquiry into state-based reform – have supported the abolition of these taxes.

Yet State Governments still raise around \$5.7 billion per year from insurance taxes. This is around 8 per cent of total state tax revenue. I do note that the Australian Capital Territory plans to abolish duty on insurance on 1 July 2016.

I know the Insurance Council has been a strong advocate for tax reform for many years.

With a discussion paper to be released shortly, calling for submissions, I encourage you all to participate in the Tax White Paper process. This open consultation period will be followed by an options paper, before the release of the Government’s tax plan ahead of the next federal election.

CUTTING RED TAPE

Insurers and consumers also benefit when the industry is not burdened by unnecessary regulation that drives up costs to businesses, and results in consumers facing higher prices.

That is why this Government is committed to reducing regulatory burdens as a critical step towards improving Australia’s productivity.

We want to restore predictability and effective consultation so that policy serves to boost confidence, promote investment, and encourage employment.

To reduce the stock of existing regulation, the Government established a red and green tape reduction target of \$1 billion per year in compliance costs. We also set aside two parliamentary sitting days each year to repeal counter-productive, unnecessary or redundant legislation.

Having been responsible for leading the Government’s deregulation agenda, when Parliamentary Secretary to the Prime Minister, I’m proud that we have already announced more than \$2.1 billion per year in red and green tape savings for businesses, individuals and community organisations.

I look forward to your industry continuing to raise red tape reduction proposals with me.

Our financial sector regulators – APRA and ASIC – do an important job. But they need to be mindful of not imposing unnecessary red tape on the industries they supervise.

This is why we issued Statements of Expectations to APRA and ASIC as with all other regulators. These Statements outline what the Government expects regulators to take into account when fulfilling their statutory duties, with a major focus on the deregulation agenda.

FINANCIAL SYSTEM INQUIRY

Another focus is responding to the Financial System Inquiry.

A key issue raised by the Insurance Council in its submission to the Inquiry is the need to help consumers make better decisions when purchasing insurance.

The Inquiry has endorsed this position. It recommending improved guidance - including tools and calculators - and improved disclosure.

The Final Report particularly highlighted home insurance as an area for improvement. There is evidence that people systematically underinsure their most valuable asset – their home.

For example, Legal Aid New South Wales estimated that following the Blue Mountains bushfires of 2013, 82 per cent of insured people who made a claim experienced some level of home building or contents underinsurance.

A recent ASIC report identified that most insurers operate on a no-advice or factual information model.

The Financial System Inquiry has flagged that the industry needs to provide more guidance to consumers on the likely replacement value for their home and contents insurance.

The Inquiry also suggested that Government intervention may be warranted if the industry does not make significant progress within a short time frame. The report flags the possibility of the Government mandating that this guidance be provided when taking out an insurance contract or renewing an existing policy.

I am aware of your concerns that the current arrangements in the Corporations Act create uncertainty. And that this uncertainty discourages general insurers from providing more tailored information to consumers about their policies.

I welcome work underway by the Insurance Council, insurers and ASIC on how to the make improvements in this area. And I am happy to consider any proposals to improve the Corporations Act.

The Insurance Council has also highlighted that insurers need greater access to information if they are to provide more tailored advice to consumers, including around local council building regulations.

My view is that industry self-regulation in this area has the potential to deliver the best outcome for consumers. But this means continuing to vigorously pursue industry-led solutions to issues such as these.

The Financial System Inquiry noted that “the recommendations build on existing industry work and practices, and should have lower implementation costs than compliance with a prescriptive regulatory regime”.

I look forward to continuing engagement from you on this and other issues raised by the Financial System Inquiry, with the consultation period open until 31 March this year.

TERRORISM INSURANCE

Finally, I'd like to turn to another type of extreme event – the potential for terrorist attacks.

The tragic incident at the Lindt Café in Sydney in December last year brought Australia's Terrorism Reinsurance Scheme into play for the first time since its inception.

This is another area where industry and the Government are working together to provide certainty to business. It is important that we continue to work together so that business and the broader community do not suffer adversely in the face of such tragic events.

Cover for damage to commercial buildings and business interruption losses is vital for the strength of the Australian economy under all circumstances.

The Government supports terrorism insurance provision by making sure that reinsurance is available to insurers through the Australian Reinsurance Pool Corporation, which is backed by a \$10 billion Commonwealth guarantee.

The strong relationship the industry has with Government was crucial following the events in Sydney.

So thank you to the Insurance Council of Australia, and to the industry more generally, for the efforts undertaken since December to work together in the first test of the scheme.

Many of you would be aware that every three years, the Government is required to review the operation of the scheme to make sure it is necessary and relevant.

The industry will be consulted on this review before the middle of the year.

CONCLUSION

The Government's reform agenda is significant for all in the room, with its focus on the financial system, the tax system, competition and deregulation.

These themes – along with improving consumer information – are what drive the Government's approach to the insurance industry. Our goal is to help ensure that Australian households and businesses can enjoy the benefits of insurance products that best meet their needs at prices they can afford.

This goal extends to Australians in areas affected by natural disasters, where the need for insurance is even greater.

I look forward to working with the Insurance Council and its members to achieve even more positive outcomes for the Australian economy, the insurance industry and its customers.

Thank you.

ENDS.