

Thank you, Chair, for the opportunity to give evidence and provide this opening statement to the Committee.

My name is Andrew Hall and I am the CEO of the ICA. I am supported today by the ICA's General Counsel, Anne Knight, who is leading efforts in relation to the business interruption test cases, and Aparna Reddy, General Manager of Regulatory Policy for the ICA.

General insurers provide Australians with 43 million business and household policies each year and pay more than \$166 million dollars in claims every working day.

Insurance is a key component of the economy, especially in a country like Australia, where our natural peril risks are a constant reminder of the challenges we have in protecting our assets.

The nation's economic recovery following the COVID turndown is the envy of the world. Lower unemployment and record levels of investment are all positive indicators of the performance of the Australian economy.

Unfortunately, not all sectors of the economy are performing as strongly, and the general insurance sector is enduring its most challenging circumstances for two decades.

Insurer profitability over the 24 months ending March 2021 was down 64 per cent on the preceding two years, and according to APRA the entire general insurance sector only made a profit of \$19 million dollars in the most recent March quarter, largely because of the impact of recent natural disasters.

While over the last 14 months the Australian community has been focused on the pandemic, since the devastating bushfires of 2019 we have also endured two major flood events, a category 3 cyclone, two destructive hailstorms and a bushfire in the Perth Hills.

Over the past three years insurers have paid out more than \$7.4 billion dollars in natural disasters claims, with more than \$5.4 billion dollars paid out since the 2019 bushfires.

Insurers received more than 39,000 claims arising from the bushfires, totalling more than \$2.3 billion dollars. More than 95 per cent of these claims are now finalised and paid, supporting those communities in their recovery.

Australian insurers are also impacted by global trends which influence underlying costs, in particular the cost of reinsurance.

Insurance globally is currently in what is described as a hardening market, meaning reinsurance is more difficult to obtain, risk appetites are very low, and in turn is impacting the cost of premiums locally.

We are aware that the availability and affordability of some commercial lines of insurance for small and medium sized businesses has become challenging.

In many of these categories insurers themselves are under pressure to provide a profitable product, with gross loss ratios running at near 100%, so solutions are often difficult to determine.

In November the ICA engaged former insurance executive and regulator John Trowbridge to undertake an independent review to identify potential solutions to these affordability and availability issues. His paper was released a month ago for public comment and we are engaging with key stakeholders such as COSBOA and other industry organisations to continue to work through these important but complex market issues.

There is no single silver bullet for resolving these issues, but we are serious about grappling with these issues for the benefit of small businesses and the broader economy.

Another area where higher premiums are being felt is in northern Australia, and insurers welcomed the Government's announcement of a reinsurance pool to help address this, and the \$600 million dollars for resilience measures through the new National Resilience and Recovery Agency.

We remain engaged with Government as it undertakes a detailed design of the pool and establishes these new agencies over the coming months.

We welcome the renewed focus by Governments across the country to investing in resilience. Reducing the risks are fundamental to maintaining a healthy insurance pool to protect homes and businesses.

Underinsurance remains an endemic problem in this country, exacerbated by stamp duties and taxes on premiums. We stand ready to work with Governments to help inform consumers on how to take the right level of cover, which could provide billions in return for communities to recover faster from these major events.

At the same time as we navigate the current market conditions, insurers have had to respond to a significant regulatory reform as we have implemented the Hayne Royal Commission's recommendations.

We are committed to working collaboratively with the Government to strengthen the confidence and integrity of the industry, and to ensure that insurance products fully meet community expectations.

Insurers are also preparing for the start of a new industry Code of Practice on 1 July – although some components of the new Code relating to consumer vulnerability and financial hardship were already fast-tracked to provide additional support for customers during COVID-19.

The updated Code of Practice seeks to meet evolving community expectations and positively influence interactions with customers when buying or renewing insurance, making a claim, or making a complaint.

The ICA will be rolling out an information and advertising campaign in coming months to promote awareness of the new Code.

If I can turn to pandemic related issues and the business interruption test cases which are currently before the courts.

The ICA has taken a coordinating role for insurers to have the BI issues determined together through the courts as quickly as possible.

I will limit my comments this morning as an application for special leave to appeal the ruling of the NSW Supreme Court in the first test case is listed before the High Court later this morning.

A second test case has also commenced in the Federal Court which will determine the meaning of certain policy wordings.

Although not a party to the proceedings, the ICA engaged on behalf of insurers with AFCA to get agreement on both test cases, and our members are funding the costs for all policy holders involved in this process.

As soon as final rulings are obtained from the courts, insurers will assess, and process business interruption claims in an efficient, transparent, and consistent manner.

Finally, like many sectors as we emerge from COVID 19, insurers are keen to see a roadmap to reopen our international borders and reopen those areas of the economy impacted by the pandemic, particularly travel and travel insurance.

A roadmap to reopening – with the confidence that once borders open, they will stay open – will enable insurers to plan to again provide this crucially important service to travellers.

We are happy to take questions from the committee. Thank you.