

20 April 2023

Committee Secretary  
Standing Committee on Economics

Via email: [economics.reps@aph.gov.au](mailto:economics.reps@aph.gov.au)

Dear Chair

### Promoting economic dynamism, competition and business formation

The Insurance Council of Australia<sup>1</sup> (Insurance Council) welcomes the opportunity to provide a submission to this inquiry. The financial services industry is a major contributor to the economy, contributing around 9% of Australia's gross value added.<sup>2</sup> Domestically, this contribution represents the third largest of any industry. Internationally, it is amongst the largest financial services industries' contributions to gross national value added within the Organisation for Economic Co-operation and Development.<sup>3</sup>

Australian consumers, businesses and governments benefit from an insurance industry that can efficiently respond to changing economic conditions. With the increasing uncertainty of global financial conditions and a major deterioration a notable possibility, it is important that insurers and Australia's financial institutions more generally remain sustainable, resilient, and efficient. This will ensure the financial system can continue to meet Australians' expectations. There is opportunity for industry and government to collaborate on boosting the productivity of Australia's financial institutions while retaining robust regulatory oversight and ensuring positive consumer outcomes.

### The Australian insurance market

The number of general insurers operating in Australia has fallen from 153 in 2002 to 93 in 2022.<sup>4</sup> This decline can be attributed to mergers and takeovers to improve operating efficiency. The general insurance market in Australia is stable because it is consolidated and disciplined in the risk-based pricing of products. The Australian insurance market is largely open to the entry of new insurers, including foreign insurers who can establish local branches subject to the Australian Prudential Regulation Authority (APRA) being satisfied that they meet prudential requirements. The presence of various foreign insurers as well as large retail groups can be seen to have a favourable impact on prices and product range as they seek to build market share, particularly in the domestic motor class of business.

The Insurance Council notes that Australia's general insurance market has become increasingly competitive in recent years as personal lines-focused challengers, which distribute through direct and

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<sup>1</sup> The ICA is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 60,000 people, generates gross written premium of \$59.2 billion per annum and on average pays out \$148.7 million in claims each working day (\$38.8 billion per year).

<sup>2</sup> Reserve Bank of Australia. March 2023. [Composition of the Australian Economy Snapshot](#).

<sup>3</sup> Organisation for Economic Co-operation and Development. 2021. OECD Economic Surveys: Australia 2021. [The role of the financial sector in supporting a sustainable and inclusive recovery](#).

<sup>4</sup> Australian Prudential Regulation Authority (APRA). March 2003. [Selected Statistics on the General Insurance Industry Year Ending June 2002](#); APRA. March 2023. [Quarterly general insurance performance statistics – highlights](#).

indirect channels, and commercial lines-focused global insurers, which distribute insurance primarily via brokers, underwriting agencies and broker binders, have recorded above market rates of gross written premium growth and gained market share from larger diversified incumbents.

Even so, barriers to entry and ongoing participation in the Australian insurance industry are relatively high compared to other sectors. Regulation is necessary to protect the financial system and consumers. However, unnecessary complexity in the regulatory regime increases the cost of doing business, hinders innovation and disproportionately impacts smaller market participants and new market entrants.

Despite these challenges, the general insurance market in Australia is mature and sophisticated in terms of product offering, risk assessment, and management. The sector is competitive, with insurers regularly looking for ways to innovate, develop new opportunities, and provide transparency of pricing and policy features. There are still a large number of insurers operating in the market, offering choice to consumers through intensive price, service, and product competition. Consumers are also able to take advantage of features such as loyalty and multi-policy discounts.

## Regulatory burden

An example of regulatory complexity is the breach reporting requirements which apply to the insurance industry, which currently requires insurers to meet different standards and timelines across six regulators and bodies: ASIC, APRA, the Insurance Code Governance Committee, the Australian Financial Complaints Authority, the Australian Communications and Media Authority and the Office of the Australian Information Commissioner. There are opportunities for simplification of obligations across these regulators, potentially through a single reporting framework. The Insurance Council would welcome the opportunity to collaborate with the Government on mapping the regulatory environment for insurers, with the goal of reducing duplicate or unnecessary regulatory impost on firms. We note that the cumulative impact of increasing regulatory burden adds a considerable degree of complexity to the operating environment which in turn limits the flexibility required to efficiently capitalise on innovation opportunities.

Cumulative regulation imposes significant operating costs on the insurance industry which are ultimately passed onto customers through higher premiums. Similarly, industry funded regulatory schemes create business costs which are reflected in premiums. Schemes which subsidise poor actors in other financial industries are particularly unfair on insurance policy holders. With respect to the affordability of insurance products in the context of escalating cost of living pressures, the government and regulators should be mindful of the impact of additional regulation, and ensure regulation is both necessary and efficient.

We acknowledge the work already underway to modernize and make the regulatory regime more efficient. In particular, the Insurance Council has been contributing to the Australian Law Reform Commission's (ALRC) Review into the Legislative Framework for Corporations and Financial Services and notes Treasury has begun to implement some recommendations. The ALRC's mandate to simplify the regulatory regime is welcome and should contribute to a more effective and efficient way of regulating financial services. We also note the work of the Australian Prudential Regulation Authority (APRA) on modernising the prudential architecture, which is a significant component of the financial services' regulatory regime.

While this work is an important step in the right direction, the Insurance Council would welcome a more fundamental reconsideration of how policy and laws impacting insurers are developed. Our experience is that the policy process is often reactive, rather than geared towards a longer-term consideration of consumer needs and market development. The Insurance Council would welcome a

more structured process for engaging in the policy dialogue and more rigorous testing of policy proposals to ensure that the intended outcome for consumers is actually achieved. Not only would this lead to more effective consumer protections, it would also avoid the implementation of costly reforms which are unlikely to have the intended effect. While Regulatory Impact Analysis does contribute to better governance of policy making, we note that it is not common for consumer testing to occur even for reforms which will make significant changes to consumer experience. We also note that the process does not consider transition or implementation costs for business as it does for government and often has limited industry consultation, if any. Finally, we also note that a cumbersome and complex regulatory regime impacts on smaller insurers disproportionately, which has a direct impact on competition.

## Innovation

Innovation in the insurance industry requires resource planning and deployment. However, the extent and speed of reforms in the financial services sector following the Royal Commission into the Banking, Superannuation and Financial Services Industry has required significant levels of compliance investment. Against this regulatory backdrop, we note the insurance industry, as with many other industries, is facing acute staffing pressures that can create additional hurdles to meeting regulatory and legislative requirements. While the Insurance Council does not contest the necessity of robust and developing regulation, greater sight of upcoming regulatory changes would allow the insurance industry to better plan and allocate resources to capitalise on upcoming innovation opportunities such as Open Data (Consumer Data Right) and digital identities. The Insurance Council recommends the introduction of a financial services planning and prioritisation forum modeled on the United Kingdom's Financial Services Regulatory Initiatives Forum.<sup>5</sup> This forum would have members from financial service regulators including the Australian Securities and Investment Commission, the Australian Prudential Regulation Authority, Treasury. Alternatively, the existing Council of Financial Regulators could be leveraged for this purpose. Members would coordinate regulatory announcements and provide a pipeline of upcoming regulatory consultations and changes to financial service providers.

The Insurance Council notes that significant changes to the regulatory environment require careful consideration and extended implementation periods. While considering larger changes, the Government could explore tweaks within the existing framework. For example, facilitating the use of shorter and more tailored disclosure documents by insurers, reducing the regulatory and compliance costs around providing advice, ensuring policy changes are technology neutral and support consumer preferences and more clearly tailor the consumer protection regime to specific products.

## Consumers

Beyond the regulatory environment, we recommend a campaign to increase transparency and informed decision-making by participants in the financial system. Financial services and in particular insurance, protect individuals and businesses as well as alleviating the financial burden on government when things go wrong. Ensuring that individuals and businesses alike understand the relationship between risk and insurance coverage will increase understanding of the industry and the critical role it plays in Australia's economy and society. Improving the financial literacy of consumers will in turn improve transparency in how the insurance market operates and assist with informing consumer choices.

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<sup>5</sup> Financial Conduct Authority. 2023. [Regulatory Initiatives Grid](#).



Thank you for the opportunity to comment. The Insurance Council would welcome the opportunity to discuss this submission with the Committee. To continue this discussion, please contact Mr Eamon Sloane, Policy Advisor, Regulatory Affairs at [esloane@insurancecouncil.com.au](mailto:esloane@insurancecouncil.com.au) or 0423 671 072.

Regards

A handwritten signature in black ink, appearing to be 'Andrew Hall', written in a cursive style.

**Andrew Hall**  
CEO and Managing Director