

Ms Kanwaljit Kaur
Manager, Insurance Markets
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

29 March 2010

Dear Ms Kaur

JOHNSON REPORT

The Insurance Council of Australia Limited¹ (Insurance Council) appreciates the opportunity to provide input to the Government in developing its response to the Report by the Australian Financial Centre Forum (AFCF) on *Australia as a Financial Centre: Building on our Strengths* (Johnson Report)². In particular, I refer to the request made by Mr Jerome Davidson on 10 February 2010 to the Insurance Council of Australia's General Manager Policy - Regulation for the Insurance Council's views on *Recommendation 4.7: that state regulations relating to the insurance sector be standardised wherever possible*.

The Insurance Council strongly endorses the Johnson Report's recommendation. State mandated insurance schemes operate in almost all states and territories in the areas of workers' compensation, Compulsory Third Party (CTP), and builders' warranty (BWI). As these schemes evolved independently of each other, the regulatory framework varies widely from state to state.

The need to comply with different regulations in each jurisdiction and also the requirement in practical terms often to have individual State/Territory operations (for example separate personnel and IT systems) makes it difficult for insurers to achieve economies of scale and manage risks efficiently. In addition, workers' compensation generally remains a very complex area for businesses, especially for employers with employees in multiple jurisdictions who deal with the cost and complexity of up to eight different workers' compensation regimes.³

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. September 2009 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross premium revenue of \$32.2 billion per annum and has total assets of \$94.7 billion. The industry employs approx 60,000 people and on average pays out about \$96.4 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

² Australian Financial Centre Forum, *Australia as a Financial Centre: Building on our Strengths*, November 2009.

³ We note the Productivity Commission's 2004 report on *National Workers' Compensation and Occupational Health and Safety Frameworks* in which the compliance burden and cost of multiple arrangements (particularly for multi-state employers) is discussed (see p XXVI and XXXII, and pp17-21).

The Insurance Council therefore agrees with the Forum's conclusion that inconsistencies and duplication across State and Territory Government regulatory regimes affecting insurance add unnecessary costs and compliance burdens and are a major impediment to a common market in Australia. However, the Insurance Council recognises that there are significant issues involved in determining an appropriate basis for the harmonisation of these State-based schemes. Such issues go to the heart of the policy reasons why a government mandates a particular insurance requirement, such as CTP. We recognise that it may take some time to address these policy questions satisfactorily for all stakeholders across all Australian jurisdictions. It will also be necessary to take account of the outcome on considering the benefits of a National Disability Insurance Scheme.

The Insurance Council is a keen supporter of the Council of Australian Government's (COAG's) goal of achieving a seamless Australian economy and endorses the work it is doing in the first instance to harmonise Occupational Health and Safety (OH&S) requirements. Given the important benefits that will flow from harmonised OH&S standards, COAG success in this area is likely to act as an incentive to tackle further harmonisation and the Insurance Council suggests that workers compensation would be a natural next candidate.

The Insurance Council believes that there are important general principles which should be borne in mind when considering the scope of a national workers' compensation scheme. These principles include equity of benefits and premiums, meaningful engagement of all stakeholders, simplicity of scheme design with a stable legislative platform and the promotion of competition.

The COAG work on OH&S standards is likely to take some time. However, in order to maintain COAG's momentum for reform, it would be helpful for Treasury to undertake a broad ranging consultation process to scope out the benefits and difficulties of harmonising workers compensation schemes. This would allow workers compensation to be put on the COAG agenda as soon as an opportunity for new work allows. Similarly, the Insurance Council would also support proactive consultation by Treasury in the area of CTP.

One part of the harmonisation challenge could be tackled separately. Many of the privately underwritten State schemes have their own prudential requirements and reporting that participating insurers must meet. In practice, these requirements are often satisfied by the insurer meeting the prudential standards of the Australian Prudential Regulation Authority (APRA). (This may take place under a memorandum of understanding between the relevant State authority and APRA.) In some cases, the prudential reporting is the same as required for APRA but must still be provided separately to the State scheme. It would appear to be a relatively simple task of having APRA recognised as the sole prudential regulator in Australia, removing duplicated responsibilities for the current multiple regulators and duplicated compliance for insurers.

If you require any further information, please contact Mr John Anning, the Insurance Council's General Manager Policy – Regulation Directorate on (02) 9253 5121 or janning@insurancecouncil.com.au.

Yours sincerely



Rob Whelan
Chief Executive Officer & Executive Director