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Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Australia's four major banks and other financial institutions: Insurance sector

FRIDAY, 25 JUNE 2021

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Friday, 25 June 2021

Members in attendance: Ms Hammond, Mr Laming, Dr Leigh, Dr Mulino [by video link], Ms Murphy [by video link], Mr Simmonds [by audio link] and Mr Tim Wilson.

Terms of Reference for the Inquiry:

To inquire into and report on:

The Standing Committee on Economics will review Australia's four major banks and other financial institutions. Specifically, the committee will inquire into matters relating to:

- how financial institutions deal with their customers, including indigenous customers, on specific issues and ensure they do not charge default interest on loans secured by agricultural land when there is a drought or natural disaster declaration (recommendations 1.8 and 1.13), and to deal appropriately with distressed agricultural loans (recommendation 1.14);
- the approach taken by financial institutions to review and regularly assess culture, governance and remuneration arrangements, as required under recommendations 5.4 and 5.6, to ensure that these not only comply with the law but also meet community expectations;
- implementation of the recommendations of the Sedgwick Review as they concern staff remuneration (recommendation 5.5);
- remediation of customers in a fair and timely manner following conduct that has fallen short of the law or community expectations; and
- actions being taken by institutions to put customers at the heart of their business and to achieve the letter and spirit of the Royal Commission's recommendations.

WITNESSES

HALL, Mr Andrew, Chief Executive Officer and Executive Director, Insurance Council of Australia [by video link]

KNIGHT, Ms Anne, General Counsel, Insurance Council of Australia [by video link]

REDDY, Ms Aparna, General Manager, Policy, Regulatory Affairs, Insurance Council of Australia [by video link]

Committee met at 09:16

CHAIR (Mr Tim Wilson): I now open today's hearing of the House of Representatives Standing Committee on Economics for the review of the four major banks and other financial institutions. Today we're focusing on the insurance sector. Given the widespread misconduct across the financial services sector, identified by the Hayne royal commission, it is important that financial institutions are held publicly accountable et cetera et cetera—honestly, I have read this so many times. I'm just going to skip over most of it. You can read it all, if you want, from previous transcripts. Today the committee will hear from a variety of insurance companies and groups who provide a wide range of insurance products and services, including building and contents insurance, vehicle and boating insurance, and business and professional indemnity insurance. We look forward to hearing how the industry has changed and adapted since we last held a public hearing, in June 2020. In fact, that was one of those virtual ones we did during the middle of the lockdown. That was something special! Of course, every hearing is special.

I'd like to outline a number of matters related to the conduct of today's hearing. The hearing is being held with witnesses appearing via videoconference and teleconference. The hearing is being webcast and can be viewed by members of the public from the parliament's website. Witnesses will be invited to make a brief opening statement and will then be asked questions by the committee. I refer members and witnesses to the House resolution related to procedures for dealing with witnesses, at page 127, paragraph 9 of the House of Representatives Standing Orders. The resolution provides that, should a witness refuse to answer a question, they should be asked to state the grounds upon which they object. The committee may either accept or reject that objection or, alternatively, deliberate at a future private meeting on whether or not to insist upon an answer. If the committee does consider the matter in private, it may write to the witness with the outcome of its discussion. During the course of the hearing, witnesses may be asked to provide documents at a later stage. If a witness subsequently refuses to provide documents, the committee may meet in private to consider the matter. Under standing order 236 of the House of Representatives, the committee has the power to compel witnesses to produce documents, where the committee has made a decision that the circumstances warrant such an order. That's all very heady!

I now welcome representatives from the Insurance Council of Australia. I remind you that, although the committee does not require you to give evidence under oath, the hearing is a legal proceeding of the parliament and warrants the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Before starting, as a matter of addressing any perception of conflict, I need to declare that Mr Hall and I are personal friends. I invite you to make an opening statement.

Mr Hall: Thank you. I'm supported today by Anne Knight, who is our general counsel and has been leading efforts in relation to the business interruption test cases, and Aparna Reddy, who looks after regulatory policy. By way of introduction, general insurers provide Australians with 43 million business and household policies each year and pay more than $166 million 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 downturn 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 currently enduring its most challenging circumstances in nearly two decades. Insurer profitability over the last 24 months, ending March 2021, was down 64 per cent on the preceding two years.

According to APRA, the entire general insurance sector only made a profit of $19 million 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've 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 in natural disaster claims, with more than $5.4 billion paid out since the 2019 bushfires. Insurers received more than 39,000 claims arising from the bushfires, totalling more than $2.3 billion in claims. More than 95 per cent of these claims have now been 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 and risk appetites are low, and, in turn, it's impacting the cost of premiums locally. We are aware of the availability and the affordability of some commercial loans of insurance for small and medium businesses, which have 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 per cent. So solutions are often difficult to determine.

In November last year, the ICA engaged former insurance executive and regulator John Trowbridge to undertake an independent review and 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 specific industry associations, to continue to work through these important but complex issues. There is no single silver bullet for resolving these issues, but we are serious about grappling with them for the benefit of small business and the broader economy.

Another area where premiums are being felt in the higher category is in northern Australia. Insurers welcomed the government's announcement of a reinsurance pool to help address this as well as the $600 million for resilience measures through the new National Resilience and Recovery Agency. We remain engaged with the government as it undertakes a detailed design of the reinsurance 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 provide the right level of cover, which in turn could provide billions in returns 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 significant regulatory reform as we've implemented the Hayne royal commission recommendations. We're committed to working collaboratively with the government to strengthen confidence and integrity in the industry and ensure that insurance products fully meet community expectations.

Insurers are also preparing for the start of the new code of practice on 1 July, although some components of the code relating to vulnerability and financial hardship were fast tracked to provide additional support during COVID-19. The updated code of practice seeks to meet evolving community expectations and positively influence interactions with customers in 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.

I'll 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 in order to have the BI issues determined together through a court process as quickly as possible. I will limit my comments this morning, as an application for special leave to appeal the ruling of the New South Wales Supreme Court in the first test case is listed before the High Court later this morning at 10.30. 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 policyholders involved in this process. As soon as final rulings are obtained from the courts, insurers will assess business interruption claims in an efficient, transparent and consistent manner.

Finally, like many other sectors, as we emerge from COVID-19, insurers are keen to see a road map to reopen our international borders and reopen areas of the economy impacted by the pandemic, particularly around travel and travel insurance. A road map to reopening, with the confidence that, once borders open, they will stay open, will enable insurers to again plan to provide a crucially important service to travellers through insurance. We're happy to take any questions from the committee.

CHAIR: Thank you, Mr Hall. We have a number of questions and relatively limited time with you this morning. I appreciate the update. Of course, the initial instigation point of these hearings was around the implementation of the Hayne royal commission. Can you just give us an understanding of what it is that the Insurance Council has been doing to aid its members in terms of implementation of the recommendations from the royal commission, its impact and whether there's any need for review or any consequences that have flowed as a direct result of those recommendations being implemented?

Mr Hall: Yes. There's currently a fairly heavy agenda of reform coming through from the Hayne royal commission. We're working rapidly towards 1 October, which is when at least three of the critical reforms—around deferred sales, antihawking, and a third one which has just slipped my mind—will come into effect. We have established working groups within the ICA focused specifically on each reform that have been operating since the start of this process. All the reforms relate back to individual recommendations of the royal commission.

We've worked and engaged with Treasury through that process. Treasury have provided the insurance sector with the process to make assessments around particular exemptions and structuring of those new regulations. We're really at a critical point now in the next couple of weeks. We are awaiting guidance and instructions from Treasury around how a number of these regulations will finally be formulated. Once insurers have that information, members will be adjusting their business operations accordingly to comply with the new rules.

To the second part of your question, Chair: first of all, we need to see what comes out of the process of assessment that Treasury has been undertaking, but it would be wise to have a review of these regulations in a fairly quick time period after their implementation. That's mainly to ensure there have been no unintended consequences for consumers, particularly in those circumstances where they're looking to buy cover quickly at the point of sale, to protect an asset or where it may be inhibiting things like a proper level of cover of insurance for customers. They're all things that need to be assessed at the right time.

CHAIR: Thank you. Can I just get clarity: what is the advice to its members from the Insurance Council related to looking at pandemics in the future and their relationship to insurance? The number of different insurance products which have been impacted by the pandemic that we have had of course raises questions about the post-pandemic period, when we get there, and the degree to which insurance products can adapt, or whether it's going to continue to be on the basis simply of an exemption model, as occurred with travel insurance.

Mr Hall: I think the issue here is that, for a start, pandemics largely have been excluded, which is why we currently have the situation that we're going through with the business interruption policies. But, more broadly, human quarantinable diseases are often excluded from many policies, mainly because of their concurrence. They're an event that can happen across a community all at once, and they're very difficult to price for in terms of the risks that they pose.

CHAIR: Are you aware of any circumstances where there's been an attempt to try and price that to try and mitigate that risk in the future, or is it just going to be, across the sector, exemptions?

Mr Hall: Globally, this is an issue; it's not just here in Australia, so we are able to look abroad. There are policies that do cover pandemics. They've largely been in the health and the entertainment space, but they're expensive. The most famous one globally is Wimbledon. They took out pandemic insurance 15 years ago and I understand that premiums were very high, but it's enabled them to recoup their losses with last year's cancelled event. Again—and we are living through it at the moment—it's very difficult to price the impacts of sudden border closures, of sudden lockdowns and decisions by government that can impact an entire community. It's simply beyond the capability of a private insurance pool to be able to cover that loss.

CHAIR: Cybercrimes and ransoms are an increasing risk. Is there any experience that you're aware of where an insurance company in Australia has paid out a ransom as a consequence of a cyberattack, and is there a policy position? I understand in Britain and France they're pushing against insurers paying for such ransoms.

Mr Hall: I'd have to take the question on notice and go back to our working group and check the details. Cyber is an increasingly complex and challenging area for insurers as well, and we've seen some very high-profile cyberattacks over recent months in Australia. These are often run by state-based actors. I think the debate that is happening globally around cyber is very similar to the issues that arose 20 years ago post 9/11 with terrorism. These are often state-based actors that are performing these attacks, and, while there is impact on business and the like, if there is a motive of terrorism or other things sitting behind it, that obviously proves a huge challenge to be able to achieve coverage through an insurance pool.

CHAIR: Deputy Chair, you have seven minutes.

Dr LEIGH: I want to start on the northern Australian reinsurance pool. The government has provisioned $10 billion, but the budgetary cost is just the administrative cost of $2.4 million. On that basis, the government is really not spending anything; it's simply acting as a reinsurer, which it believes it can do on a breakeven basis. I want to delve into the financials behind that. For an insurance premium on a home in North Queensland, as a ballpark figure, what share of that premium would be the reinsurance cost?

Mr Hall: I don't have a breakdown of that in front of me. I'd have to take that on notice. I think it has been examined through the ACCC northern insurance enquiry. There was a lot of data collected by the ACCC from that process to understand what the built costs are behind a premium charged in northern Australia. Suffice to say, the reinsurance cost is generally a significant proportion of the cost of a premium. On top of that obviously are the state-based taxes that can make up 20 to 30 per cent of the cost of the premium as well.

Dr LEIGH: That's significant—maybe around 10 per cent or so?

Mr Hall: I would say it's more than that.

Dr LEIGH: What's your ballpark figure? I'm just trying to get a sense of magnitude, not precise figures.

Mr Hall: I don't have precise figures for a household policy, but, when I look at some of our major members, I can see that when they have their provisions for natural disasters the reinsurance costs are largely similar to the costs they set aside in their own premiums. So I'd suggest that it's probably more like a third of the premium, but, Aparna, can you recall—

Dr LEIGH: Sorry; I've only got seven minutes. So, if we go for a third of the premium and then covering cyclone and flood related events, presumably then we would be looking at a smaller share—maybe a fifth or a 10th of the premium for cyclone and flood specifically, and the reinsurance costs related to cyclone and flood?

Mr Hall: We'd have to look at that. I think the issue is: this is the data we're currently working through, in a process with Treasury, to try to understand what are the key drivers of the premium costs as they relate to the peril and which part of that risk is ceded to a reinsurance pool.

Dr LEIGH: Sure. Let's take your 30 per cent and divide it by two to get a cyclone and flood number. Say that would give you 15 per cent of the premium cost being reinsurance. Then you've got some saving because the government is doing reinsurance rather than having to go out to the private market. Say you can now squeeze that 15 per cent down to 10 per cent. You're talking about a five per cent saving on the premium, right?

Mr Hall: Again, this feels like back-of-the-envelope figures.

Dr LEIGH: It is, absolutely.

Mr Hall: That is why we're currently engaged in a process with Treasury. I think they set aside $2.3 million for actuarial assistance on this. The Australian Government Actuary is involved with it. They're currently pushing through the data requests, and members are cooperating with that to be able to do these calculations.

Dr LEIGH: But the numbers I get down to, through any reasonable calculation, have it in single-figure percentage changes. So Catherine Rosenbrauer, who said that her home and contents policy in Port Douglas had doubled to $6,000, is really looking at, at best, a five per cent reduction in premiums, having just seen a 100 per cent increase. Wouldn't that be right?

Mr Hall: What I would suggest is that there is going to need to be a raft of measures brought forward to reduce her premiums, and they're not all in the purview of the federal government. The state government could provide her with an immediate 20 per cent relief if they abolished stamp duty and—

Dr LEIGH: There are a plethora of other issues and, if I had more than two minutes, I'd be delighted to go into those, but I want to keep you focused on the northern Australia reinsurance pool, which it seems to me could at best deliver single-digit percentage decreases in premiums. Can you envisage any way in which it produces more than that?

Mr Hall: Again, I don't have access yet to the data. That data will be done by actuarials who are much better at calculating what the benefit is and what the return would be in terms of the cost of reinsurance for insurers.

Dr LEIGH: How do you justify the position of opposing, as you are in the High Court today, a judicial decision that set aside the Quarantine Act as grounds on which an insurer could reject a business interruption claim?

Mr Hall: How do we justify appealing? Is that your question?

Dr LEIGH: Yes.

Mr Hall: Anne, maybe you can help with this. When we agreed to do the test case process with AFCA, part of that agreement was that either side could appeal. So it was a right that we had in terms of running a test case process.

Dr LEIGH: I get that it's a right you have, but businesses desperately need their insurers, and the peak body for insurers is trying to mobilise against businesses being able to claim at a time at which many of them have been hit for six. Is that really the right role for the Insurance Council?

Mr Hall: What the test case process was designed to do was try to avoid literally dozens and dozens of other court cases erupting around this issue. I suggest it would have gone into the hundreds. It's the first time a test-case process has been used to resolve a question of law around how these policies are responding, and as soon as we have an outcome from this court process, insurers are ready to move forward with the claims processing. I don't want to go into the arguments around the High Court. I feel that that is going to be presented fairly shortly in the High Court. Regardless of the outcome of the High Court, there is still a range of policy wordings which reflect the fact that pandemics were never intended to be covered. Insurance wasn't sought, reinsurance wasn't sought, the pools weren't built and this has the real ability to bankrupt pools of business interruption in this country.

Dr LEIGH: It doesn't send much of a message to businesses though, does it? The Insurance Council is out there, fighting today for businesses to not be able to claim in a situation where many of them are struggling to stay afloat.

Mr Hall: We've actually been advertising in major papers, encouraging people to lodge their claims, to keep their paperwork and to speak to their brokers to make sure that everything is in order once we get clarity around these legal questions so that their claims can be processed quickly. In terms of business interruption as a policy, the payout ratio is near 100 per cent. It is a very active, very productive business policy and it pays up for a raft of reasons when businesses are interrupted. On the question of the pandemic and shutdown by state governments, this is something that was never contemplated, and that is why we are, unfortunately, going through this court process.

Ms HAMMOND: I think the test-case process is a useful process; however, I have a query. You made a comment in your opening statement that underinsurance is endemic in this country. My query to you is: do you think there's not just under insurance; do you think there might be a lack of confidence or a suspicion among people taking out insurance when they see claims being rejected and wording being challenged that they believe actually covers them?

Mr Hall: I think that, when it comes to households and personal insurance, there is a high degree of confidence in the products, and we're seeing that through these recent natural disasters. The closure rates are now faster than they were previously. Major insurers work quickly. They work on a fairly low-documented process to be able to ensure that people can restock their fridges after a flood and that they have access to temporary accommodation. When I was talking about reinsurance, one of the challenges we have in this country is that, if we're going to use insurance as a key tool in mitigating the impacts of increasing natural disaster events, people need to be aware that, when they rebuild their home in a bushfire area, it will likely cost twice as much as when they originally purchased it. We've seen through the bushfire areas that, because of the BAL attack levels that local governments now have in place, the cost of rebuilding your home—where 15 years ago it might have been $400,000—is now pushing up, so it's really important for people to stay abreast of the risks in the area where their asset is located and ensure that the premium they're paying is going to give them the sort of coverage they need to rebuild.

Ms HAMMOND: How does the Insurance Council promote that without being seen to be upselling?

Mr Hall: We have a number of ways in which we do that. We have an online calculator on our website where you can look how much insurance you should be taking out for your dwelling and the cost of that. We work actively with consumer organisations on this issue. We've just completed a series of round tables with the Master Builders where what we've been seeking to do is, rather than have this look like a cost on consumers for building their homes, have people understand fully that the right insurance is critical for protecting their single biggest asset, which is their home.

Ms HAMMOND: I will move on to one other topic. The new General Insurance Code of Practice is due to come into effect in the matter of days. Could you very briefly outline the main differences between the current General Insurance Code of Practice and the new code of practice that's due to come into effect and the extent to which your members and all of the people who work for them are prepared and ready for those changes?

Mr Hall: Yes. That's a great question. The new code covers a range of new obligations around claims handling, complaints and communication back to consumers within certain time frames, providing consumers with information at the right time through the process of setting up insurance policies. Importantly, in the new code, the code governance committee has the ability to sanction insurers for significant breaches. Previously, the sanctions were applied only if the breaches weren't rectified. Now they will be applied when the breaches occur—there are sanctions of up to $100,000—so there will be a monetary impact on insurers in the event of any major breaches.

The new code also introduces a raft of measures around vulnerability and hardship, which, again, is new for the insurance industry. Insurance policies are different from banking policies in the sense that you need to keep paying a premium to keep the insurance cover active, so insurers need to find different ways to be able to defer payments, to help people in vulnerable situations while at the same time helping them maintain cover. It's different from, say, deferring a mortgage. In fact [inaudible]. So there's a raft of new measures there to help members address those hardship issues.

Dr MULINO: I have just a couple of questions to follow up on the deputy chair's questions around the Northern Australia reinsurance pool. They're really more high-level policy questions, if you will.

We had the Trowbridge inquiry some years ago and then, of course, the ACCC inquiry. One of the issues around affordability was the extent to which there should be subsidised premiums for people at very high risk. We see, for example, in the Flood Re pool in the UK that that's the approach they've taken, and targeted subsidies were a recommendation from the ACCC. Other approaches have been used around the world. I think the American pool is slightly different and has had its own challenges. Firstly, I'm just interested in your policy approach when it comes to the use of subsidies to help with affordability for people at very high risk.

Mr Hall: That's a great question. If we look around the world, there are a raft of schemes that we've been able to draw lessons from. I don't think the US scheme is one that we would ever recommend; it costs US taxpayers billions of dollars a year and it hasn't improved building standards or land-use planning. It just masks that. Critically, whatever the final design of a reinsurance pool is in this country, we simply have to also be investing in reducing the risk. One of the great things about the UK Flood Re model is that it is time limited; it will fade out, I think, in 2035 or thereabouts. After that point, building and land-planning decisions need to be made in a way that isn't vulnerable to flood.

If we do a reinsurance pool for northern Australia, whatever the design is, it needs to be time limited and it needs to drive an incentive for building standards to be changed and improved, as well as for retrofitting investments and existing housing stocks. It would be a shame to get down the track in the next couple of years and find that a significant proportion of the government's $600 million has not been invested in, literally, the roof strengthening and door strengthening of homes in northern Queensland and northern Australia.

Dr MULINO: That was certainly the direction that the Trowbridge report recommended we go in, but, as Dr Leigh suggested, there's been a very small amount of money dedicated explicitly in the budget to date. To go down the path of targeted subsidies would potentially need to involve a substantial amount of money for it to make any material difference for high-risk homes, wouldn't it?

Mr Hall: Well, it all depends. Again, this is going to come down to how the pool is designed, and that's the work that Treasury are undertaking at the moment. That was reflected in the questions Treasury issued in their consultation paper: 'What are the properties that get seeded to the pool? Is it all in? Is it compulsory?' There are all these questions about the design of it which need to be settled over the next six months that will determine the size of the benefit it can deliver. Ultimately it shouldn't mask the cost of the risk completely.

Dr MULINO: I guess my question is: if we're talking subsidies, if we're going beyond the direct reinsurance cost and going down the subsidies path. You have alluded to the fact that you could taper it out over time. There are question marks over how realistic that is because even if you taper it out over 15 or 20 years, a household in 15 years is still going to be faced with a pretty big underlying risk. So it's possible you could design the scheme that way but there are question marks over how realistic that is. Once you start going down that path, it does expose the budget to risks, doesn't it?

Mr Hall: I think the budget is exposed to risk anyway because it's a $10 billion guarantee. Once operational, it's not a question of if we get another cyclone; we will get one. They've been happening every year. So my guess is that that $10 billion will be called on and triggered once the pool is designed and in place. So I think there is already going to be, effectively, skin in the game from the government around this pool, as opposed to maybe the terrorism pool, where other measures have been able to reduce the risk and control and avoid the need for a payout, thankfully. So I think there is absolutely skin in the game. It all depends, again, on the design and the scope and where Treasury lands on those recommendations.

Dr MULINO: One other quick question. Sorry to rush things, but we're very time constrained today. For me a critical question—this was something that was discussed when the ACCC came in front of us—is there's little point going down this path if you don't deal with measures to effectively stop new risks being created. That might be, for example, local government permitting development on land which is at risk of flood or storms. It's fair to say, isn't it, that any scheme will have to be designed in such a way that it manages those risks in a much better way than we have over recent decades.

Mr Hall: Yes. If we look at the UK model, it's an excellent incentive to stop local government approving housing developments on flood plains. If government at whatever level is approving development under those risks, those people are going to face a higher cost of insurance. So it's almost a market based solution to some of these land planning issues that have beset us. But we do need to still go back. Regardless of the reinsurance pool, the long-term objective in this country should be to get resilience as an objective in the National Construction Code. When we talk about cyclone rated homes in places like Queensland, we need to understand that they're category 3 survivable, which means that you may survive but your house is basically destroyed. We're going to need to raise those levels and work with builders and work with the market to build homes that are capable of withstanding stronger and more frequent cyclones.

Dr MULINO: On a related point, the budget included additional funding for mitigation, which is a related point to some of the issues we've been talking about. What need to be some of the governance arrangements put around that additional funding to make sure it creates the most community benefit?

Mr Hall: By establishing it through the NRRA, there is an agency working through this. We would encourage the new agency, when we're talking to them, to work with a variety of stakeholders, including insurers. We can provide the data, and we can point to exactly where the most vulnerable homes are and where the biggest return on investment will come from, both at a community and individual level. So there is a need for large infrastructure funding around flood levies in a number of east coast towns.

Dr MULINO: Do we need to see explicit business cases developed? This is a piece of infrastructure where there are clear costs and benefits, like many others. I would have thought that now is the time where we should start to see business cases so that we do the levies in priority order.

Mr Hall: I think we've got to think about it in the same way we think about infrastructure investment in this country, particularly when we're making decisions around where new highways and rail and the like. It's the same around resourcing infrastructure that needs to be built.

Dr MULINO: Thanks, Chair.

Ms MURPHY: Mr Hall, Dr Leigh asked you some questions about the special leave application being heard in the High Court today, and you mentioned it in your introductory remarks. I want to ask a couple more questions on the topic, based on some things that were said in a story in the *Age* today, which I'm sure you've read, written by Tammy Mills: 'Billions of dollars in COVID 19 insurance claims hang in High Court balance.' I assume you have read that, before giving evidence today.

Mr Hall: Yes.

Ms MURPHY: Great. Attributed to a spokesperson for the Insurance Council is this sentence:

A clear framework didn't yet exist to enable the industry to cover the global pandemic risk without the likelihood of insurance pools being bankrupted.

What is the spokesperson referring to in terms of a 'clear framework not existing'? Is that government regulation, a framework from the Insurance Council or something else?

Mr Hall: It's probably more of a contractual, legalistic framework that gave surety to contracts where they were always intending to exclude pandemic—so that those exclusions held up—because when the premiums were priced, reinsurance was sought and the pools were constructed, it was to the exclusion of paying out for a pandemic.

Ms MURPHY: It might just be me, but I don't quite understand. Is it that the framework didn't exist to make sure that all insurance policies said the same thing? The quote is not referring to contracts; it's clearly saying a clear 'framework' doesn't exist.

CHAIR: Sorry, could I just interrupt. I think what might provide clarity is what you said before, Mr Hall, in the context of the reinsurance. Is that the issue you've addressed or raised?

Mr Hall: No—

CHAIR: Do you have context of the framework?

Ms MURPHY: The quote I'm referring to, Chair, is 'a clear framework', so I'm asking for clarity about the quote in the paper.

CHAIR: Yes, so I'm asking if that's the issue you're referring to, Mr Hall.

Mr Hall: What we've always referred to—I don't know whether the quote is clear enough, Ms Murphy, so maybe I'll refrain from what the *Age* wrote and say that what insurers are looking for is certainty to rely on in terms of their contracts. Insurers have been very worried about the fact that the exclusions that they believed held up around pandemic exclusions are not that solid. It isn't limited to Australia; it is a global issue. If you look in any developed insurance market, the same court cases are happening globally because it's been a challenge everywhere. I think that, once the dust has settled in all this process, we as an industry will have to come back and have a conversation with government around how we structure these kinds of policies in the future so that, if they cover something, they've got the wherewithal to be able to cover it.

Ms MURPHY: I think perhaps we got there in the end of your answer, Mr Hall, that the clear framework that doesn't exist is any sort of framework with government, be it regulations or primary legislation. If you need to go back and have a conversation with government, that means that what is being referred to as the 'lack of a clear framework' is lack of a governmental clear framework for the insurance industry.

Mr Hall: This has been such a major, unprecedented event, and it has tested policies in a way that wasn't anticipated and we believed there was a lot more certainty around. I think what we want to make sure of is that the overall offer of business interruption insurance isn't threatened by the current situation.

Ms MURPHY: I appreciate that, Mr Hall. I'm sorry to interrupt you but, as everyone else has said, we do have limited time. I'm not trying to be pedantic but you've got something that a spokesperson has said, and I think we'd be entitled to assume that the Industry Council spokesperson doesn't say things randomly to publications such as the *Age* without it having be workshopped through the Industry Council and approved. It's not a difficult question. The clear framework doesn't exist, so where should that framework come from? Should it come from government? Should it come from insurers?

Mr Hall: I think it's going to be on the part of insurers, on regulators, on government. We all need to come together and understand, if we need to plan for another major event, like a pandemic, the sort of framework we're going to need to be able to offer the policies that will either provide protection or not.

Ms MURPHY: The response from the businesses that are quoted in that article, and insurance lawyers who openly say they have been fighting insurance companies for years about what insurance covers and doesn't cover, is some sort of incredulity—that, all of a sudden, the Insurance Council is debating fine print and whether the fine print means what it says it means compared to how they usually approach issues when it comes to what's covered and what's not. That's a fair observation, isn't it? It's pretty ironic you have the Insurance Council now saying, 'Sorry, these insurance agreements don't actually say what they say in the fine print.'

Mr Hall: What I would acknowledge is that these policies all contain a range of exclusions that haven't been tested in the context of a pandemic, particularly in the context of the experience we've had in Australia.

Ms MURPHY: Sure. But the fine print is that various insurance companies continue to have contracts where they refer to a piece of legislation that doesn't exist anymore. There was clearly anticipation of things like global pandemics, but these contracts, the fine print, don't say what they're now being argued to say. That's a pretty unclear situation, right?

CHAIR: That's your final question, Ms Murphy.

Mr Hall: Ms Knight, do you want to explain the legal principle behind the argument in the first test case, as opposed to the second test case where we're testing actual policy wordings around radius and outbreak and the like?

Ms Knight: The legal argument is that the commercial intention of the parties was that the pandemic would be excluded and that there has been a mistake, as you said, in that there was reference to a piece of legislation that has now been replaced by the Biosecurity Act. The legal argument remains that the commercial intention of the parties should be given to the insurance contracts.

Ms MURPHY: Which undermines the previous answers, about not being able to predict there would be a pandemic, right?

CHAIR: I'm sorry, Ms Knight, have you finished your answer? Otherwise, we do need to move on.

Ms Knight: I've finished that—if you want me to respond to Ms Murphy's question, I can.

CHAIR: Unfortunately, we really don't have time, because we have other witnesses waiting. You're welcome to provide a response on notice, if that's alright with you.

Mr Hall: We'll have an outcome from the High Court in the next couple of hours anyway.

CHAIR: Alright. Thank you for appearing before the committee today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearing, and you'll be sent a copy of the transcript of your evidence to which you can make corrections of grammar and fact. I apologise for the shortness but we need to, unfortunately, get through quite a large number of companies today. Thank you very much.

CROMPTON, Ms Judith, Chief Executive Officer, Asia-Pacific, Cover-More Group [by video link]

[10:04]

CHAIR: Welcome. I remind you that, although the committee does not require you to give evidence under oath, these hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I invite you to make an opening statement.

Ms Crompton: Good morning, committee members. Cover-More welcomes the opportunity to appear before you today. I would like to make a brief opening statement to provide an update on a number of developments since we last appeared before you 12 months ago. At that time we noted that the COVID-19 pandemic was having a significant impact on Cover-More's customers, workforce and business operations. That continues to be the case.

Cover-More's main source of business is Australians travelling internationally. Pre-COVID, this accounted for around 95 per cent of the value of policies sold. With the closure of Australia's international borders, we have lost our main source of income. As a specialist travel insurance and medical assistance provider, Cover-More does not have other lines of business to offset these impacts. We have managed our cost base prudently. The limited revenue we are able to generate is not covering our fixed costs. As a result we have had to reduce our Australian workforce by close to 60 per cent. Fortunately we have received capital injections from our parent company, Zurich Group, to support our continued operations.

Following the closure of Australia's international borders in March 2020, Cover-More's immediate priority was to process full refunds of policyholders who cancelled their travel plans. We put in place the necessary systems and resourcing, and worked closely with our distribution partners to manage the unprecedented volume of requests. We have issued refunds to more than 300,000 customers since that time. We have also extended coverage for Cover-More customers overseas who have been unable to return to Australia.

Beyond this responsive activity, Cover-More has sought to use the past 12 months to undertake a number of initiatives that will improve its future efficiency and customer offering. As foreshadowed to the committee last year, Cover-More worked with its underwriter, Zurich Australia, to develop products that offer COVID cover. In December 2020 we introduced our COVID benefits, which offer coverage for a range of medical expenses, cancellation, accommodation and transport costs associated with circumstances arising from the pandemic. These benefits have been incorporated into our products for domestic travel and travel to New Zealand, and our intention is to extend them to other markets as they open.

We have invested in the development of several new app based products that will provide additional options for prospective customers and offer enhanced customer service for existing policyholders. One of these is an app that will provide security alerts, health notifications and location specific information to customers in real time, as well as an emergency assistance button. We are also progressing a large program of work aimed at simplifying Cover-More's suite of products to promote better outcomes for customers. This includes extending coverage to address pain points identified by customers—for example, in relation to delayed luggage and lost medication—and clearly setting out inclusions, customisable options and exclusions in product disclosure statements in plain English.

Looking to the future, the scale of movement of people across Australia's international borders will be the principal driver of Cover-More's recovery as a business. Clearly, decisions in this regard are made by the federal government on the basis of health advice, and Cover-More supports that approach. We welcomed the opening of the trans-Tasman bubble and would like to see the development of further bilateral agreements with low-risk countries. The vaccine rollout is also a key step on the path to easing international border restrictions, and it's pleasing to see that that is gaining momentum.

In summary, Cover-More is doing what it can to position its business to be as competitive and sustainable as possible, so that, when international travel resumes, it can meet the expectations of its customers and continue to provide local employment opportunities. I'll leave it there. I will be pleased to answer any questions the committee may have.

CHAIR: Thank you very much, Ms Crompton. To begin with: you said you've made 300,000 policy payouts, if I'm not mistaken?

Ms Crompton: Yes, that's correct. We moved swiftly to implement a policy where we provided full refunds to anybody who was unable to travel, and we've refunded 300,000 people during the period.

CHAIR: Refunded—sorry.

Ms Crompton: Yes—fully refunded, between March and October last year.

CHAIR: Do you currently have any disputes with individual policyholders who took out a policy where you have not fully refunded or partially refunded and you are continuing to have a form of dispute?

Ms Crompton: Yes, there are less than one dozen disputes that we have in that regard. Last year, we processed 30,000 COVID-related claims and we've paid 60 per cent of them. Five per cent are still under assessment, and there are fewer than a dozen that are still in dispute that we're still reviewing.

CHAIR: On what basis are they still in dispute?

Ms Crompton: The single biggest reason for any claim denials in dispute is around the pandemic clause and the fact that there was no coverage for a pandemic due to the border closures. That's mostly the reason for the disputes.

CHAIR: How many policies do you presently issue for travel insurance? I'm talking about individuals, not corporate.

Ms Crompton: Right now, today, we're selling on average 51,000 policies a month. We've seen an uptick in the last two months since the trans-Tasman bubble was announced, where we're selling close to 10,000 policies a month across the Tasman.

CHAIR: So there's still a business; it's just a very low scale business?

Ms Crompton: There is. As you are aware, prior to COVID our revenue derived primarily from overseas travel and less than five per cent of our book was made up of domestic and trans-Tasman sales. Whilst we are still offering premiums for domestic travel, it's a small part of the book. The trans-Tasman bubble did see an uptick. In fact, we've seen a 60 per cent uptick in revenue since the trans-Tasman bubble was announced. We are still selling international policies for people who need to travel overseas who obtain a government exemption—

CHAIR: Does that mean they're exempted from the general pandemic exemption clause of these contracts?

Ms Crompton: No, what it means is our comprehensive policy that was applicable pre-COVID—all of those inclusions are still applicable. But there is still a pandemic clause, so, if a border closes, there would be no opportunity for anybody to make a claim—

CHAIR: So it's on the basis that there's a border closure, not on the basis that they might be affected in some way, inadvertently, by pandemic restrictions?

Ms Crompton: Correct. The inclusions in our policies are medical expenses. If there are any medical expenses that are required when you travel, that would be covered. If you have an accident, break a limb, break your spectacles, lose your baggage—all of that would still be covered.

CHAIR: Does it include interruptions to travel associated with contracting COVID-19 or potential future variants?

Ms Crompton: We've launched COVID-related products that are now applicable for domestic travel and trans-Tasman travel, but the COVID products will not be applicable if there's a government advisory that said it's not safe to travel—

CHAIR: Prior to departure, or can it be enacted after they've departed?

Ms Crompton: Prior to departure. I will give an example. You purchase our policy. You're travelling to New Zealand. Our COVID products are automatically now included. They're not an add-on or a bolt-on. If you had to cancel your trip because you have now contracted COVID, or you're in quarantine, and you have cancellation penalties on your travel tickets then you would be able to apply for a refund for those cancellation penalties. You'd be able to claim on your policy. If you've now been quarantined due to health then we would pay your claim for cancellation penalties.

CHAIR: For cancellation penalties but not for associated costs outside of cancellation penalties, such as the costs, for instance, of quarantine measures, including the cost of staying in a hotel room for the period?

Ms Crompton: Let's say you're on your trip, so you've travelled, and you contract COVID or you've been for a test and you're waiting your result, so that means that you need to extend your trip and that has extra costs involved, you will be able to make a claim and we will pay that claim.

CHAIR: Okay, that's actually a bit surprising. You said you've refunded 300,000 policies that were underutilised, but, of course, a large part of your business is providing block cover for corporates who provide it for their workers in the event that they have to travel overseas. Is that correct?

Ms Crompton: No, we don't provide those types of policies. That is something that we are working towards providing in the future, but today we don't provide those sorts of policies.

CHAIR: So you only provide individual policies?

Ms Crompton: Yes, individual policies.

CHAIR: That's a misunderstanding on my part because it would raise broader questions about the consequences of refunds and whether people were utilising it. Going to modelling of future risk, what modelling has Cover-More done to inform the development of future policies around providing travel insurance in light of the potential future travel risk of pandemics?

Ms Crompton: We work with our underwriters, Zurich Australia, regarding that modelling. At the moment it's too early to predict what can happen with the future pricing. Whilst we have the instability in the marketplace at the moment, we haven't been able to come up with that modelling looking that far in the future.

CHAIR: You're basically saying that you don't really know what's going to happen and so you can't really model in terms of pricing products?

Ms Crompton: Yes, it's too early for us to look at that yet.

CHAIR: What's been the impact on the price of products you've offered in the marketplace to cover the additional cost of COVID-19?

Ms Crompton: We've increased the prices by approximately 10 per cent, and we've done that because of these extra products that will now be incorporated into the policy. What I might not have mentioned before is that the COVID products that we offer are not standalone or add-on products. They're incorporated into our fully comprehensive policy, and those policies have increased by approximately 10 per cent.

CHAIR: So basically there's a 10 per cent increase associated directly with COVID-19 and providing additional protection or cover?

Ms Crompton: Yes, that is correct.

CHAIR: At the moment are there any countries in the world that you're not providing travel insurance for as a consequence of COVID-19 measures?

Ms Crompton: We still continue to sell travel insurance for those people who obtain an exemption to travel overseas, but those policies won't include our COVID benefits because there's a government advisory not to travel. We'll only include the COVID benefits once government advisories are lifted.

CHAIR: As Ms Hammond was saying, such as in the context of New Zealand?

Ms Crompton: Yes, correct, travel to New Zealand. If, for example, you were to obtain an exemption to travel to Singapore, you could still purchase a policy from us to cover all of the non-COVID related products. If we were to open a bubble to Singapore and therefore the government deemed it safe to travel, our COVID products and benefits would automatically then become applicable and kick in.

Dr LEIGH: We've had a report from the General Insurance Code Governance Committee which came out in March and reported that there had been a considerable increase in the rejection rate of claims for travel insurance and that insurers had knocked back 16 per cent of travel claims lodged in the year through June. That rejection rate was more than three times as high as the rate of rejection for the overall retail insurance market, according to Michael Roddan. He reported that 366,000 claims were lodged in the travel space and that companies rejected 59,000. That is going to make it hard to retain the confidence of your customers, isn't it, if you're knocking back one in six claims?

Ms Crompton: There has clearly been an issue in that regard, and I think all travel insurers would acknowledge that there's an issue in that space. Some of those stats are due to the timeliness in the turnaround of the insurance providers being able to assess the claim. I think, in part, that was understandable with the pressures last year. But most complaints will occur when a claim has been denied. If we look back to understand why we are denying claims, it's mostly around the lack of understanding of consumers about what they can claim for. That has the consequence, or knock-on effect, that when a claim is denied people will tend to complain.

A lot of work has been done in this space during the last year. We, as a company, have spent a lot of time looking at historical claims to actually understand and build a picture of why we are denying claims. We've looked at consumer confusion and uncertainty, and that has led us to evaluate why there is confusion out there. We believe it is because there are potentially too many PDSs, product disclosure statements, and people quite often don't understand what they're covered for. We've done a huge piece of work to rationalise the number of PDSs that we have. More importantly than that, the PDSs—it's embarrassing to say—are not always written in plain English. Again, we have done a huge amount of work, as I know a lot of our peers have, in rewriting the PDSs to put the clauses front and centre and in language that is much simpler to understand, so that people are a lot clearer on what they're covered for—

Dr LEIGH: Let me push you a little bit on this. You're essentially saying that the problem is that consumers are dummies and they're not able to follow the detail. That's not what the chair of the Code Governance Committee said. Veronique Ingram said that noncompliance with basic principles of the code by insurers continues to be an issue. She said:

It is especially disappointing to see the prevalence of significant and standard Code breaches being attributed to systems-related issues, processes and procedures not being followed, and to human error.

You seem to be blaming it all on the customer and saying that the customer doesn't understand these complicated documents, whereas the Code Governance Committee is saying, 'No; insurers are consistently doing the wrong thing.'

Ms Crompton: In the last 12 months, we've reported two significant breaches. One was around our refund process turnaround time, which I think I've addressed but I'm happy to talk about further if you would like me to. The second was around our claims turnaround times. Up to 30 June, 17,000 customers were impacted beyond our 10-day turnaround time. That represents a third of the volume of claims we received in 2020.

Dr LEIGH: They were the significant breaches. In terms of self-reported breaches, I asked Mr Stein at our 3 June 2020 hearing how many breach reports had been issued by Cover-More. He took that on notice. I don't recall having received an answer, although I might be wrong. How many breaches did you commit?

Ms Crompton: I believe we did submit an answer to that question, but I will take that on notice. If we didn't, I will ensure that's done. In terms of self-reporting, we submitted one report, which was about exceeding the time frame for the processing of our refunds. We asked our underwriter, Zurich Australia, to proactively notify ASIC that we were outside of the 15-day turnaround time.

Dr LEIGH: You just told me there were two significant breach reports. I'm now asking about overall breach reports. Was there only one overall breach report? I'm puzzled by this. We're talking about 2019-20 here.

Ms Crompton: I believe we had two significant breaches. One was self-reported, and the other was around the claims turnaround time. I will take that on notice to review.

Dr LEIGH: And overall breaches?

Ms Crompton: I'll need to take that on notice.

Dr LEIGH: That's a little disappointing, I have to say. This is a question you were asked at the last hearing, and, at the last hearing, you took it on notice. I've got to say that I'm surprised that you can't tell me your number of overall breaches. We're here to follow up on the Hayne royal commission, which went to the misconduct of your industry. We're talking about breaches reported under your code, and today you can't tell me the number of breaches Cover-More committed in the last financial year.

Ms Crompton: I have two significant breaches. I'm sorry, I don't have that information at hand about other breaches that aren't classed in the significant category.

Dr LEIGH: Could you get your staff to look into that and report it back at the end of the time? I'm not particularly comfortable with having to leave this to a question on notice given that I'm asking about something that is pretty basic and ought to be in the briefing materials in front of you. What's happening to your overall business? How many insurance policies are you writing at the moment? How does that compare to pre-pandemic?

Ms Crompton: So, pre-pandemic, our revenue sat at circa $450 million, with an average premium price for our international policies being about $300, and five per cent of our revenue was made up of trans-Tasman and domestic business. That is now flipped to the other way around. We're writing approximately $4 million a month in revenue terms, which is mostly based on domestic and trans-Tasman.

Dr LEIGH: How viable do you think Cover-More is as a company if the international border for the majority of the world stays closed for another 12 months?

Ms Crompton: We are in a fortunate situation where our parent company in Europe, the Zurich Group, has injected some capital into the business. The Zurich Group is extremely committed to our model and to our business. We know that travel will come back. We're experiencing, through the New Zealand sales, a pent-up demand. Travel will come back. I think, as soon as the vaccine program gets momentum around the world and borders do start to open, people will want to start to travel again.

Dr LEIGH: It's got momentum around the world. It just doesn't have momentum in Australia, which currently has the lowest rate of full vaccination in the OECD. Do you see the issue of the rejection of travel insurance claims as also being a challenge for your business? One in six claims rejected seems like something that would cause many customers to wonder whether they should buy travel insurance.

Ms Crompton: Travel insurance does represent good value, and there are benefits that apply from the day of purchase around cancellation, emergency and assistance services that are included when one travels. If you get into trouble, particularly overseas, those potential costs can be very high. In 2019, if I may quote one example, we paid over 550 claims with a single value of more than $60,000 each. So I think travel insurance does represent good value.

Dr LEIGH: What's your ideal rejection rate for the industry? Right now, if someone puts in a claim, they roll the dice. If it comes up six, the claim gets rejected. That seems a pretty problematic situation. What rejection rate do you think the industry should be aiming towards? Presumably, zero isn't feasible. What's the ideal?

Ms Crompton: You're right; zero isn't feasible. Our views on that would be commercially sensitive, and I would like to provide that on notice.

CHAIR: I'm sorry, does 'commercially sensitive' mean that you want to provide it on notice in confidence or confidentially or—

Ms Crompton: Yes, in confidence.

Dr LEIGH: This seems like a basic policy question. I'm surprised you need to take that approach. I'm done with my questions.

CHAIR: Thank you, Deputy Chair. Ms Hammond.

Ms HAMMOND: I just want to pick up on something you said earlier, which was that you had less than a dozen disputes on claims for refunds on travel insurance. I might have misheard, but I think you said that it was to do with the wording of the pandemic coverage. My understanding is that all of your policies would use the same wording, so in what circumstances would some claims be disputed and other claims not be disputed?

Ms Crompton: It could be around the timing of when the pandemic was announced, back in March last year, or it could just be people's lack of understanding that we're working through with them.

Ms HAMMOND: Lack of understanding of what?

Ms Crompton: Of the clarity of the wording in the product disclosure statements.

Ms HAMMOND: So that would account for the dozen or so current disputes?

Ms Crompton: Yes, it would.

Ms HAMMOND: Can you give an example of one?

Ms Crompton: I don't have such an example at my fingertips, and I apologise, but I will take that on notice.

Ms HAMMOND: I'm still not clear as to why you've settled so many but then you still have a dozen that are in dispute when it's the same wording.

Ms Crompton: Yes; I do apologise, but I don't have that information.

Ms HAMMOND: Okay.

CHAIR: Just for clarity: you are seeking a response on notice for that?

Ms HAMMOND: Yes, please. Moving onto the current insurance that you're providing for domestic travel: I'm going to ask questions as if I'm about to travel interstate—which, albeit that I'm here at the moment, coming from Western Australia I won't do, because I never know whether I'm going to get back in again! You offer COVID cover now and it's a part of that domestic insurance. If I were travelling from Sydney to Western Australia and I got to Western Australia and was told I had to go into quarantine for 14 days, would that insurance cover the cost of that quarantine for 14 days? I haven't got COVID, but I have to go into quarantine for 14 days.

Ms Crompton: Yes, it would.

Ms HAMMOND: So it would cover the cost of the hotel?

Ms Crompton: Yes, it would, at the same price range of hotel that you had booked in your normal circumstances. It would cover the cost of you claiming for that accommodation.

Ms HAMMOND: If I landed in Perth and I was told I immediately had to return to New South Wales, which is what happened to a number of people this week, would there be any coverage there?

Ms Crompton: Coverage for your flights being reorganised and any expenses? No, there wouldn't. You wouldn't be covered, because that's deemed a border closure and our coverage does not yet cover for border closures because the risk is too uncertain.

Ms HAMMOND: I'm a New South Wales person who decides they want to go to Perth. If I get to Perth and I'm put into 14 days quarantine, that's fine. If I go to Perth and I'm told to turn around and come back because WA has put in place a border closure, then if I have to cancel my hotel booking your insurance is not going to cover that?

Ms Crompton: Yes, correct. The way you've described that is correct: it's not going to cover it. The policy will cover medical expenses if you're sick with COVID or non-related COVID, and the extension of any accommodation if you are quarantined. But as for border closures, we do not cover those.

Ms HAMMOND: Surely if you're sick it's picked up on public health in any event?

CHAIR: It depends where it is.

Ms HAMMOND: It's domestic insurance. Travelling domestically, I would have thought that you would end up in hospital. How much does this policy cost?

Ms Crompton: For domestic premiums we have policies that start as low as $7, and they could be $120 and beyond. It depends on how far in advance of your travelling that you purchase and if you have any pre-existing medical conditions—those types of things. The average premiums are between $7 and $120.

CHAIR: Do you mean per day?

Ms Crompton: No. That is the full cost of the premium for your entire trip.

Ms HAMMOND: Coming back to comments you gave earlier to Dr Leigh about consumer confusion and uncertainty and policy wording, how confident are you that people undertaking domestic travel in Australia at the moment understand the difference between border closures and what you have just outlined to me—when you will pay and when you won't pay? How confident are you that that has been clearly explained to people?

Ms Crompton: I'm confident. We distribute our products in two ways. One is directly through our website, and we've ensured that the website is very clear and up to date. The other way we distribute our products is through our various distribution partners—travel agents and financial institutions—and we've trained those partners and ensured that all of their product information websites and pamphlets are up to date.

Ms HAMMOND: In terms of those pamphlets, do you have some plain English examples? For example, if you travel interstate and this happens, you will get covered; if you travel interstate and the borders shut and you have to turn around, you won't be covered for anything—does it go down to that level of clarity?

Ms Crompton: Yes, it does.

Ms HAMMOND: So you're writing 2,000 policies per month?

Ms Crompton: We're writing 10,000 policies a month for travel to New Zealand, and we're writing approximately 40,000 policies a month for domestic travel.

Ms HAMMOND: Are that many people travelling to New Zealand per month? That's huge!

Ms Crompton: There has been an uptick of 60 per cent from previous levels.

CHAIR: Does that include New Zealanders coming to Australia?

Ms Crompton: No, that doesn't. That's the number of outbound passengers from Australia.

Dr MULINO: Thanks for your evidence. I want to ask a couple of questions on the issue of confusion arising from the different products on the market. I've looked at a list of travel insurance products on the market, and there are dozens of brands. Looking at which brands provide coverage for cancellation and/or medical expenses, before the pandemic became a known event, there are a whole range of brands that provide coverage for neither, some that provide coverage for cancellation but not for medical, some that provide coverage for medical but not for cancellation, and some that provide both. Not only that, a lot of these product differentiations would be buried in clauses or product descriptions that I suspect a lot of customers would find it hard to identify. When we look at flood insurance and the way it was examined some years ago, there were similar kinds of issues. Ultimately, consumers just weren't aware of whether or not they were covered. Even where there was coverage, there was differential wording for no really good reason. Do you think the market is working well at the moment in terms of consumers understanding what they're getting and being clear as to whether an exclusion covers cancellation or medical, for example, at the moment?

Ms Crompton: I think it's working well in part but there's still a lot of work that needs to be done in this space. There's a big piece of regulation that we're working through at the moment—the product design and distribution regulation—which will come into effect in October this year. This is about ensuring that the most appropriate product is sold to the consumer. It's about trying to simplify the PDSs and the product that is within the PDSs and, coming back to plain English, making things a lot simpler. We, as an industry, have made it too confusing, and there's some really good work now being done on making it simpler.

Dr MULINO: But, going back to flood cover, there was clear evidence at that time that product disclosure statements were not very effective. There was a legislative requirement for general insurers to issue a one-page summary for home and contents insurance. It seems to me that the raft of different approaches on cancellation and medical coverage is just as complicated. Is it enough to have dozens of different brands each trying to use more plain English? It seems like it's going to require something more than that.

Ms Crompton: There's a huge amount of work being done in this space, but I think it is also important to give customers choice and for them to be able to have a choice of different products and different opportunities. For example, we're hearing from the travel industry that there is a real demand for adventure travel. Coming out of this situation, people want to do things differently. They want to live a little bit differently and they want adventure travel. We have quite a bit of demand, with the agent saying, 'Can we write a product and build something that is unique and specific to adventure travel?'

Dr MULINO: I concede that's valid for something very niche and specific and very high risk. But it seems to me that, if you look across all of the dozens of very standard products—just for a family holiday—half of them exclude cancellation and half don't. This is something I will put to the regulators, but, if industry are going to use this argument about consumers needing choice, they also need to demonstrate that they're offering value and that they're pricing products lower if they're not covering cancellation, for example, or medical. I'd like to see that shown.

Ms Crompton: There is definitely an opportunity to simplify things and rationalise things, and I think we'll come a long way with the piece of work around the product design and distribution. That really will help. The other piece that has helped, which was implementing back in April, is the unfair contract terms piece of regulation, but I think we can still come a long way. You're right in what you're saying: things need to be simple and basic and easy to understand.

Dr MULINO: This is my last question. Going again back to flood, we legislated a standard definition. Do all travel companies use the same definition of 'pandemic'?

Ms Crompton: I don't know the definition that some of our competitors would use. I would imagine we do—

Dr MULINO: I can ask the ICA on another occasion, on notice. I suspect they probably don't, to be honest.

Ms Crompton: Possibly.

CHAIR: As there are no further questions, thank you for appearing before the committee today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearing. You will be sent a copy of the transcript of your evidence, to which you can make corrections to errors of grammar and fact.

Proceedings suspended from 10:43 to 11:01

CLARK, Mr Brett, Chief Executive Officer, TAL Ltd [by video link]

SWANSON, Mr Simon, Managing Director, ClearView Life Assurance Ltd [by video link]

CHAIR: I welcome representatives from ClearView Life Assurance and TAL. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. I now invite each organisation to make an opening statement, starting with ClearView.

Mr Swanson: I thank the committee for the opportunity to appear today. ClearView is an ASX listed financial services provider that offers life insurance, wealth management and financial advice. The group currently has over $280 million of annual in-force premiums and circa $3 billion of funds under management. Our products are distributed solely through financial advisers. In our view, the complexity of life insurance and income protection means that personal advice is fundamental to ensuring customers have appropriate cover.

Australia's life insurance sector is dominated by a handful of large foreign players. We have our own big four, and together they represent 75 per cent of retail in-force premiums. I also make the observation that Australia is amongst only a few countries in the Asia-Pacific that don't allow life insurance companies to offer health insurance.

In a few short decades Australia's life insurance industry has, unfortunately, gone from a pillar of society to a small blip in financial services, despite offering products that are highly relevant to society. Australia's underinsurance gap has widened over recent decades, particularly among certain groups in society—for example, those aged between 25 and 44. Furthermore, approximately one in two Australians don't have any income protection insurance and the level of life insurance continues to fall relative to the high levels of household debt in Australia.

The industry must accept some responsibility for its part in exacerbating the underinsurance problem. Complacency has led to underinvestment, mismanagement and a lack of innovation. However, in recent times, overregulation has also played a role. Simplifying the way people buy life insurance would pave the way for digital solutions both for an adviser and directly, which would provide greater access to the benefits of cover. Currently, the compliance burden on advice businesses and major changes to adviser remuneration under the Life Insurance Framework are driving up the cost to serve and in turn the price of advice. This has created serious unintended consequences for families, society and the government. Advice affordability is deteriorating at a time when awareness of the need for life insurance has never been greater, due to COVID-19 and record high levels of household debt.

We believe that the life insurance industry's long-term future hinges on a thriving advice profession. When advisers do well and the advice industry is strong customers have improved access to quality advice, and society benefits. Reducing the compliance burden would go some way to improving the situation. We maintain that people should be able to choose how they pay for advice: through fees, commissions or a combination of both. In addition, advice fees should be tax deductible.

We also urge the government to consider making life insurance premiums tax deductible like they were in the 1970s when more Australians held adequate cover.

We welcome the government's decision to combine the life insurance and quality of advice reviews. We expect Treasury to find that the quality of life insurance advice has increased significantly in the past few years, reflecting the fact that advisers are more educated and qualified than ever before. I'll be pleased to expand on these issues and answer any of your questions more broadly. Thank you again for the opportunity to appear.

Mr Clark: Good morning, thank you for the opportunity to appear before the committee today. Together with our partners, TAL protects 4½ million Australians. In our last financial year, TAL paid more than $2.7 billion in claims to 37,000 customers and their families. Nearly 70 per cent of that amount, or around $1.9 billion, was paid in living benefits, helping our customers to continue living their lives while recovering from serious illness and injury. As a specialist life insurer, TAL provides life insurance cover in a number of different ways—directly to customers through digital and other platforms, through financial advisors and through our partnerships with a number of superannuation funds. Taken together, this gives us a broad view of the Australian life insurance industry.

A well-functioning life insurance sector is a vital contributor to the economy, playing an important role in the broader community welfare ecosystem alongside other government and private-sector programs supporting Australians in the event of serious illness or injury. The life insurance industry provides more than $11 billion in claim payments every year to support Australians and their families through their most difficult times. We are privileged to be able to provide this support to the community and these customers when they need us most.

In recent years, the Australian life insurance industry has undergone a period of significant change. Insurers and our partners have managed major regulatory change, the effects of consolidation as local banks have divested their wealth management and life insurance operations, increased community expectations of life insurers and, of course, over the last 15 months supporting our customers' partners and staff through COVID.

Alongside this, the industry has also implemented additional self-regulation. The Life Insurance Code of Practice was implemented in 2017 and is now an important part of the industry architecture, supporting better customer outcomes. Industry is now working on the next iteration of the code and will be engaging with ASIC on enforceable code provisions consistent with the royal commission's recommendations. In addition, the industry has agreed new medical collection frameworks with the Royal Australian College of General Practitioners to ensure life insurers are officially targeted with information they collect for underwriting and claims purposes. More recently, with ANZIIF, the industry has also agreed to and is implementing a professional standards framework to ensure minimum training and competency standards for all underwriting and claims staff. TAL is proud to have played a role in the development of these initiatives.

Looking forward, our priorities include: implementing the final tranche of regulatory reform from the royal commission, continuing the work underway to remodel disability income insurance and ensuring that these products are fit for purpose and sustainable, addressing questions of ongoing choice and access to quality life insurance products and continuing to play our role in the important area of mental health support for the community, alongside the government's own contribution, particularly against the backdrop of the continued impact of COVID-19. These are important areas of focus and collectively contribute to continuing to improve outcomes for consumers and the long-term sustainability of the life insurance industry. Thank you again for the opportunity to appear today. I'll be pleased to answer the committee's questions.

CHAIR: Thank you very much. As you know, the purpose of this enquiry was essentially around oversight of the implementation of the Hayne royal commission. ClearView had a number of issues, including the admission of 300,000 different breaches of anti-hawking laws. TAL faced problems with ASIC, including the failure or breach of duty of care or to act in good faith. What are you both doing, respectively, to address the implementation of the Hayne royal commission recommendations and to change in culture and conduct, as well as conforming with legislative change? Mr Swanson?

Mr Swanson: There were quite a few questions in that one. The first was in respect to the implementation of the royal commission. I think the industry is making good progress; the unfair contracts legislation has come into force this year and we have claims as a financial service and the design-and-distribution obligations legislation. We also have the FASEA exams that take place at the end of this year, noting that the government has given some respite into September next year. I'm sure that's appreciated by a number of advisers who are undertaking their exams. So the industry is making progress. From a ClearView perspective, we're on track to implement all of those reforms which have been announced and we await with interest the Treasury's consultation paper on the compensation scheme of last resort.

With respect to our direct business, as you alluded to: we closed that in May 2017 and we remediated all those customers by 2019. We consider that matter closed.

CHAIR: The question wasn't in the specifics, it was in the context of the misconduct that was raised. We'll come to you shortly, Mr Clark, but my critical question isn't just about what you've done but also how you're measuring it in terms of implementation. How is that being done as an organisation, including at the board level, to ensure that the recommendations are being implemented so that we can have confidence that you're implementing the reforms required effectively and that the culture of the organisation has changed?

Mr Swanson: We have a three-lines-of-defence model. Inside our risk management framework there are three lines. There are the actual people in the business who are executing with customers and advisers daily. The second line is our risk and compliance team; their role is to oversee that. Then the third line is, obviously, the external auditors and so on.

How we actually go about monitoring that is that we take out staff surveys twice yearly as to the risk culture of the organisation. In addition, at the end of every audit there's a risk culture survey done on the actual audit that has taken place. Our internal auditors—one of the big four accounting firms, KPMG—have a framework for measuring risk culture at the end of each audit process. So from a broad perspective it's actually done through both the risk management framework and a risk appetite statement in the organisation. Both of those have been upgraded in the last couple of years.

CHAIR: What's the frequency of reporting on these matters in terms of the reporting structure within ClearView?

Mr Swanson: Every time we go to the board there's reporting on it—on risk culture. On every board paper there's a specific reference to the risk considerations concerning the paper involved, and there are normally eight or nine meetings per year.

CHAIR: Thank you. Mr Clark?

Mr Clark: I won't go over all the pieces of reform that Mr Swanson has already covered. I'll just give the committee a view of how we're managing it at TAL. The first thing is that of course we're treating the implementation of all the recommendations of the royal commission and the changes in legislation very seriously. We have an extensive program of work in place, implementing those changes up until this point, and there's another significant body of change in regulatory reform which will be in place this year. The first of those was unfair contract terms, which Mr Swanson has already alluded to. That's in place and we're fully compliant at TAL across all of our products in the market. Then there's a whole series of additional reforms that are coming into place in October of this year.

We have a body and program of work set out to deliver that. That's fully funded. There's around $10 million to implement that change this year, to give you a sense of the magnitude and the size of it. We have framed that in TAL in terms of a customer outcomes and a customer excellence program rather than consider it as a body of regulatory change which we need to comply to. We talk about it in the organisation as, 'This is change and reform that delivers good customer outcomes.' That's how we framed it, and that's how we describe it in the organisation.

In terms of board oversight of that, that is reported to the board. At every board meeting there is a full suite of reports through our risk and our legal teams around the implementation of this reform. The board have high expectations of management not just to deliver it but to deliver it at a very high quality. And, to the broader points around culture in the organisation, there are elements to that. What I would say is that our board also receive regular reporting on risk culture. We've been working with a third party who's been advising TAL around what is best practice in measuring, identifying and taking actions on risk culture. One of the important milestones for TAL more recently is where, at 31 March financial year, as part of the suite of reports that get produced for that is the normal actuarial financial condition reports, we've delivered to our board this year a non-financial condition report, which has been produced by the chief risk officer which assesses all of the non-financial risks so the board has a complete picture of both the financial condition and non-financial condition of the organisation. We belief that's an industry-first, and we presented that to APRA recently as an example of how we're taking obligations around our culture and risk culture very seriously.

CHAIR: Mr Swanson, Mr Clark referred to the cost of implementing these requirements—I think it was $10 million for TAL. What is the estimated cost for ClearView?

Mr Swanson: I can't answer that. I'll have to come back to you specifically.

CHAIR: You can take it on notice.

Mr Swanson: Yes, we'll take it on notice.

CHAIR: Thank you. For both organisations: what modelling has been taken around the potential impact of the COVID-19 pandemic on the future offerings of life insurance or other products that you provide, or is there deemed to be no financial impact that will affect policy prices?

Mr Swanson: The impact of COVID-19 has been significant on the industry and it's taken different processes. There's an operational issue, which has meant people have had to work from home and so on, and I think the industry has done fairly well with respect to that. With respect to pricing of products, at this point there has been no particular overlay. I can say from ClearView's perspective, at 30 June last year, we did increase our claims assumptions for both lump sum—that is, death insurance—and income protection, both from a termination, as in how long claims go for. I think it's still early days to see the impact of it, to be frank. To give the committee some idea of the way this plays out, it's fair to say that suicide was one of our concerns. If you read our annual report last year you would have seen we increased assumptions for suicide. That did not actually happen—suicide actually went down—and in our research part of that was because people were participating in a global pandemic and everyone was in this together. The second impact was there was an incredible increase in telehealth, which was an interesting part of technology actually delivering to consumers. I think there's also another part: a large number of customers were very comfortable going and talking to their financial adviser about their financial situation, which actually reduced that. Conversely, though, because a number of people have deferred going to see doctors through the pandemic, we could see further claims in the next couple of years around heart attack, cancer, stroke and so on, where early intervention hasn't been able to take place because people have not gone to see the doctor, and some claims may last longer in income protection. So that would be our overall summary. Basically, COVID-19, at this point, has not had a significant financial impact on the pricing of products. It has had from an operational perspective; there's no doubt about that.

Mr Clark: I have similar observations to Mr Swanson. As I referenced earlier, we're at 31 March financial year, so this time last year we were moving through our end of financial year and the COVID situation was breaking with lots of uncertainty and lots of unknowns. At that time we increased our reserving for future claims in the order of hundreds of millions of dollars in the expectation that we would see significant amount of claims as a result of COVID-19. Thankfully, that has not proven to be the case. Over the last 15 months, the COVID situation in Australia has been handled really well relative to other countries around the world. So moving through this financial year, at March 31, we have released some of those reserves we established last year, not all of them. We have retained some additional reserves for COVID on our balance sheet because we think that the impacts of COVID will still be longer lasting. We have paid 24 claims so far related directly to COVID and we expect to pay more claims in the future but that will largely be as a result of the second-order effects, mental illness claims, which are impacting Australians as a result of lockdowns, employment availability and other stressors related to the pandemic. So that is a longer term picture that we are still keeping an eye on and watching very closely.

Overall the impact so far in the Australian life insurance market has been relatively moderate given that the pandemic has been handled relatively well compared to other global economies. There is a longer term watch out around mental illness claims, and Mr Swanson has highlighted the operational issues that all businesses have had to deal with.

Dr LEIGH: Mr Swanson, can you take me through the impact of COVID on your business last year? My understanding is that your net profit for the six months ending 31 December was up 27 per cent compared to prepandemic levels? Your total profits for calendar 2020, how do they compare to 2019?

Mr Swanson: I don't have the exact numbers from 2020 to 2019 but it is fair to say that 2019 was a poor year for ClearView with respect to claims performance. The impact of COVID, as I alluded to earlier, was significant on the organisation to the extent that we did not pay bonuses, did not pay a dividend and did not have any pay rises across the organisation. Remember, this was around June last year, so it was an important time in the context of the pandemic. There was an impact there. Obviously the claims management improved during the period and that is why the profit increased. But I would also draw to your attention it is not a particularly satisfactory return on capital.

Dr LEIGH: So your profits were up in 2020. Why did you get JobKeeper?

Mr Swanson: Because our revenue across the organisation was actually down. We were eligible for JobKeeper in the 2020 year and the first half of this financial year. The point of JobKeeper, from our perspective, was to ensure that people were actually continuing to be employed. We had no redundancies and that was part of the pact we had with our people—no redundancies, no pay rises, no bonuses and no dividends paid to shareholders.

Dr LEIGH: You say your revenues were down in 2020 compared to 2019?

Mr Swanson: Yes. The revenues that go through to a service company were down significantly.

Dr LEIGH: But the costs were also down and so that's why the profits were up?

Mr Swanson: Sorry, could you say that again?

Dr LEIGH: Your revenues are down and your profits are up, so, from that, presumably, it follows that your costs were also down.

Mr Swanson: Our profits were down in the year ending June 2020, compared to the half-year ending December 20.

Dr LEIGH: But I am asking you about calendar 2020 as a whole, because you had a strong second half of 2020, with your underlying net profit climbing 27 per cent to $13 million.

Mr Swanson: Yes, we had a very—

Dr LEIGH: So if we take calendar 2020 as a whole, that was a more profitable year than the one that preceded it, wasn't it?

Mr Swanson: I would have to take that on notice.

Dr LEIGH: I am sorry—you don't know whether your profits were up or down last year?

Mr Swanson: I know the financial year numbers. I cannot recall exactly the calendar year numbers. We work on a financial year basis and it is also about reported net profit after tax, which is impacted dramatically by the movement in long-term discount rates.

Dr LEIGH: Chair, Mr Swanson is not sure of these numbers. Can I hand to another witness? I'll pull up the numbers and come back. Would that be convenient for the committee?

CHAIR: Just to clarify, you are asking about the same thing? You are asking about calendar year and he only has financial year?

Dr LEIGH: Yes. I thought it might be useful if I took a moment to pull up the financial accounts.

CHAIR: That is fine.

Ms HAMMOND: How many employees do you have, Mr Swanson?

Mr Swanson: We have around 330.

Ms HAMMOND: This comes back to the question that the chair was asking originally about ClearView's culture and the changes you have put in place since the royal commission. A couple of the comments that were raised were your remuneration structure was incentivised aggressive sales tactics. Have you changed the remuneration structure and how is it currently at ClearView?

Mr Swanson: Just to be clear, we did close that business back in May 2017 and those sales structures do not apply to any other part of the organisation at all. Since then we have moved to a line of business structure, which is where the BEAR regime is going to, and our remuneration structures have a deferral component to them as well.

Ms HAMMOND: So can you actually explain the remuneration structure?

Mr Swanson: Obviously staff are not advisers. We do not have any internal sales people, so to speak, who are actually talking to customers, so there is no-one in ClearView who talks to customers or sells to customers.

Ms HAMMOND: Who does that for you?

Mr Swanson: We only do that through financial advisers.

Ms HAMMOND: But they are not your employees?

Mr Swanson: No. That is correct.

Ms HAMMOND: On what basis then do you have the remuneration structure for your employees?

Mr Swanson: For employees there is a base remuneration structure. Then there a variable short-term remuneration and a long-term variable remuneration.

Ms HAMMOND: And what is the short-term based on?

Mr Swanson: It has gate openers on risk management, and people have to go through those gate openers. That is the first point.

Ms HAMMOND: Gate openers?

Mr Swanson: Yes—are we complying with appropriate risk management culture and customer focus and so on. That is the first gate opener and that gets you into having specific remuneration around your performance, which will be both company performance and an individual performance, and it depends on levels in the organisation. As an example, at my level, the short-term variable remuneration is 50 per cent of the base. That requires good risk management and compliance; there is a gate opener to that. It is then effectively based on a fairly large component—it is all in the annual report—on the company's performance and in a number of projects that need to be implemented.

Ms HAMMOND: So that is in relation to your remuneration. Coming back, continuing along this theme, responding to questions from the chair when he asked you about changing culture, you referred to twice-annual staff surveys, the risk management framework and eight or nine meetings per year. Mr Clark, in responding to a question on culture, referred to 'customer outcome'. You did not mention 'customer outcome'. I assume that was just an oversight.

Mr Swanson: It was clearly an oversight. Our customer satisfaction surveys are done externally by a number of organisations and we are pleased to say we are normally in the top one or two life insurers in the country for customer, and adviser satisfaction too.

Ms HAMMOND: How often are the customer surveys done?

Mr Swanson: They are done once a year by two organisations.

Ms HAMMOND: And are the organisations ones that a lot of the organisations in this industry use so that you benchmark against them?

Mr Swanson: That is correct.

Ms HAMMOND: Do those gate made public, those responses?

Mr Swanson: Not by ClearView. It is up to the people who do the survey. They are available from organisations like Investment Trends, Beddoes Institute and so on.

Ms HAMMOND: Thank you for that, Mr Swanson. Mr Clark, I understand that there has been a significant rise in the cost of policies for death, cover and income protection. Is that correct?

Mr Clark: I wouldn't say for death cover. That would not be consistent with my understanding. For income protection, that certainly is the case. The industry more broadly has lost almost $4 billion over the last few years on income protection policies. That has resulted in an intervention by APRA into the market to ensure that these products are sustainable for the longer term.

Ms HAMMOND: When you say 'lost' $4 billion what does lost mean, that you've paid out?

Mr Clark: It means, in terms of a simple profit and loss, the industry has lost $4 billion on income protection policies over the last few years.

Ms HAMMOND: So what they've got, in terms of the charge, they've paid out for—

Mr Clark: The revenue that the insurance industry has received less the costs, the claims and expenses of running the industry. The net result is $4 billion over the last few years lost.

Ms HAMMOND: Has there been analysis done on the cause of that?

Mr Clark: Yes, there's been lots of extensive analysis on this issue. It's probably one of the more material issues, alongside implementing all the royal commission recommendations that the industry's grappling with at the moment. The Actuaries Institute have done an awful lot of work in this area and produced some excellent papers, I think, on a diagnosis of what went wrong and why the industry has found itself in this position. As a result of that, the Actuaries Institute have made a number of recommendations, both to APRA and the industry, to try and resolve this issue. We need to resolve it. Income protection insurance is an important risk protection mechanism for Australians, and life insurers putting up prices as a result of losses is not a solution. That's a very poor solution.

We want customers getting access to these products that are affordable, with certainty around price, and that are delivering claims to customers when they really need them. The pricing outcomes that customers are receiving, and advisers and life insurers are dealing with—frankly, it's unacceptable, at this point. Industry is accountable, I believe, to find a solution on the way forward.

Ms HAMMOND: Do income protection policies as a standard include mental illness?

Mr Clark: They include mental illness. They cover customers for mental illness, yes.

Ms HAMMOND: With your watching brief you mentioned your longer-term watch out for mental illness, which I agree will have significant impacts on us post-COVID as well as now but it will last for a period of time longer. Will this be having an impact on you and maybe increase costs even further?

Mr Clark: That is a risk. If you took me back 12 months ago, I would have said it was a very significant risk. Today, I still think it is a risk. At TAL, it's something we're watching very closely. Mental health more broadly in the community is a significant issue. We see that in all life insurance businesses today. We have a situation today where income protection products are loss making. That's resulting in price rises. Depending on how this rolls out in the future, in relation to mental illness, which may be COVID or non-COVID related, that's something we'll need to consider and watch carefully.

Ms HAMMOND: Excuse my ignorance on this particular topic, but with income protection insurance are you able to offer different coverage, where some income protection only protects if A, B or C happens and causes you to lose your job or whatever?

Mr Clark: Yes, you can. The products that are available are quite flexible. You can choose different waiting periods, different benefit periods for when you're off work, how long the benefit will be paid, and all of these different levers can be used by customers and financial advisers to find more affordable options, if that's needed, for customers. So that flexibility in the product does exist today. I should point out that as a result of APRA's intervention into the market there is an expectation, from all life insurers, that there will be a whole new range of income protection products being introduced into the market by no later than October this year. That's a very firm expectation from APRA. So all of us—Mr Swanson's business, my business and all life insurers—are busily working on developing these new products that deliver better outcomes for customers and get benefits to customers when they really need them, but provide a product which also gives people more certainty around affordability of premiums in the future as well. That's a lot of work that's going on right now.

Dr LEIGH: Mr Swanson, I've just looked at your two most recent sets of half-year accounts. For the first half of calendar year 2020, ClearView's is down $3 million. In the second half you're up $3 million. So overall profit for calendar year 2020 and calendar year 2019 is about the same—$23 million in both years. Your net asset value was up $13 million, though. I suppose it raises the question, given that many other firms have chosen to repay JobKeeper—Domino's, Toyota, Iluka—and that some 20,000 small businesses chose not to claim JobKeeper, because they judged that they didn't need it for their business: has ClearView considered repaying JobKeeper support, given the fact that your profits didn't tangibly fall in calendar 2020?

Mr Swanson: It's not our intention at this stage to repay JobKeeper, because we took the view that it was about ensuring that staff maintained their employment levels and that there would be no need for any redundancies as a consequence. So that's why we did it.

CHAIR: To follow on from the deputy chair's question, he asked whether it was considered. Was it considered at board level?

Mr Swanson: No, not directly.

Dr LEIGH: But there are many firms in Australia which didn't fire workers. Toyota didn't fire workers, and nor did Domino's or Iluka. They, nonetheless, chose to repay JobKeeper, because they didn't feel that their capital bottom line should benefit from a program that was designed for firms that were in real strife. You don't appear to have been in real strife last year. There were similar profits in 2020 and 2019. Is it really right for you to be getting $2.4 million of corporate welfare?

Mr Swanson: Well, clearly, we do pay a fair piece of tax.

Dr LEIGH: Everyone does. That doesn't mean you get corporate welfare. That's a completely different issue.

Mr Swanson: ClearView followed the law and we took a view that the fairest thing to do was to do that, to ensure that we would not be in a position where we were forced to retrench people. That's the view we took.

Dr LEIGH: I'm not asking you about following the law. I'm asking about whether you believe it is consistent with your corporate social responsibility to be receiving corporate welfare to the tune of $2.4 million at a time in which your profits didn't fall?

Mr Swanson: The point of that was we were able to maintain employment to ensure our profits didn't fall, which means we are around to pay the claims in future as an organisation. Financial stability is obviously very important. There have been issues across the industry, as you're aware of, and that's why we got to the position we got to.

Dr LEIGH: So you're telling me that if your profit last year had been $21 million, rather than $23 million, that you would have fired workers? Is that really what you're telling this committee under oath?

Mr Swanson: I don't actually know, because we didn't go through that detailed process about the trade-off between that. We took a view that it was important to make sure that we could say to staff, 'This is a safe place to be and to stay employed,' at the time of the crisis. That's why we did it. It was a very different time almost a year ago.

Dr LEIGH: But you're a life insurer, and we know that mortality fell in Australia, while it rose in other places. You're highly profitable. It isn't too late to do the right thing and repay the taxpayer. Would your board consider that?

Mr Swanson: We would consider it, yes.

Dr LEIGH: Will you commit to considering that at the next board meeting and to reporting back those deliberations to this committee?

Mr Swanson: Yes.

Dr LEIGH: Thank you. I have a quick question for Mr Clark: there have been massive increases in income protection insurance premiums. In one example raised in a story in the *Daily Telegraph* by John Rolfe, there was an increase from $861 to $2,768. What measures is TAL taking to ensure that people don't simply drop that cover?

Mr Clark: I'm not familiar with that example specifically, but I touched on this in response to an earlier question. The significant part of the losses that the industry is going through with income protection which have resulted in these price rises is mostly through what we would describe as the retail channel, which is delivered through financial advisers. One of the things that TAL's working on is helping financial advisers understand really deeply what is going on in the income protection market and giving them the tools and information to be able to talk to their customers about different options to be able to restructure their policy, if they need to, to keep it at an affordable level. We also do that to some extent within our own business, through our customer service people, but we are mindful when we do that that we don't cross a line in giving financial advice. It's very clear, from ASIC, what that line looks like. So we try to give our financial advisers as much information and as much flexibility as possible in dealing with this issue. One of the ways we've dealt with that is through the TAL Risk Academy, an innovation that we introduced a few years ago. It provides broad based education and professional development services to financial advisers, not only in person but also—over the last 15 months, during COVID—digitally.

Dr MULINO: Thanks to you both for coming to give evidence. How much remediation have you paid to date and how much potential remediation remains in process?

Mr Swanson: We paid, back in 2019, a total cost of $4.5 million for direct remediation, of which $1.5 million went to consumers. The rest was in administration costs. We paid out a similar cost amount for advice, of which $700,000 was to do with customers and half of that was to do with one financial planner. We have no remediations on foot and no actions at this stage.

Dr MULINO: Thanks. Mr Clark?

Mr Clark: I don't have those figures at hand with me today, but I'd be very happy to take that question on notice and provide those figures back to the committee, if that's satisfactory.

Dr MULINO: Sure, although I would have thought you would have had that to hand, given that this hearing's about the royal commission.

Mr Clark: I would just add that, in terms of the royal commission remediations in particular, TAL had no exposure to the fees-for-no-service issues or those sorts of things. The matters that were examined in respect of TAL were in respect of those claims, and we've dealt with those claims specifically with those customers.

Dr MULINO: Okay. How many cases do each of you have in AFCA at the minute? I think, Mr Swanson, you said there were none relating to that remediation, but what about more generally?

Mr Swanson: In the last six months, we've had one case with AFCA and seven other complaints, but they've been resolved through internal dispute resolution.

Dr MULINO: Mr Clark?

Mr Clark: I don't have those figures at hand with me today, but I'd be very happy to provide them on notice to the committee.

Dr MULINO: Okay. Mr Swanson, one of your opening comments was that advice is a critical channel for consumers to purchase your product. I'll start with the premise that there is potential for life insurance products to provide people with important risk management. But clearly the royal commission highlighted a number of serious problems, in terms of both the way in which products were being sold to people and some of the products themselves. You also made a comment in relation to the fact that it's important that people have choice in how to pay for the advice, whether it be up-front or through commissions. I'd be interested in some comments from you in relation to what you feel you've learned from the royal commission. There were clearly, in relation to both of your companies, some highly problematic practices. I do understand, in principle, the notion that choice might make sense, but clearly there were some systemic problems in the past. How do you feel that it's possible for consumers to get value for money and comprehend the ways in which they're paying for products when we have complicated commissions in play rather than up-front fees?

Mr Swanson: Let me have a go at answering that because you bring up a broad subject. From a product perspective, we offer full-advice products, so they're actually quite comprehensive products. That's how we're trying to deal with that issue and that's why we closed our direct business back in 2017. It is a complex product. You've got life insurance or death insurance, you've got total and permanent disablement if someone has a significant injury et cetera, you have trauma insurance, heart attack, cancer, stroke and the definitions thereof and then you have income protection, which, at a simple level, is effectively a sickness and accident policy and covers mental illness. So it is a complex one. It's very hard to get the right sum insured for a person if you sit down with them and say: 'What is your income? What if you get partially ill? Will you keep your job?' and so on and so forth. It is a complex conversation that you have to go through.

What I was trying to articulate—and I'm sorry if I didn't do it clearly enough—is that it's important to try to get to a process where it's a simple process. I think Mr Clark alluded to what we call a 'general advice to personal advice divide'. As soon as you ask a customer, 'What sum insured would you like?' you've actually gone into personal advice. As soon as you go into personal advice, you have to do what's called a 'full fact find', so you have to find out a person's needs, their aspirations and so on. You then do a needs analysis. You then do a statement of advice, and I'm sorry to say the statement of advice is between 30 and 50 pages, depending on the situation, and if you include superannuation it's probably 80 pages. To be frank, they are not very comprehensive documents in the sense of the ease for a customer to read them. So our view is we need simplify that advice process, with it still having the best interest duty in there so that the adviser must do the right thing by the customer—I think that's fundamental.

With respect to the commission piece, it is a very interesting discussion. Our view is that it's about choice. Why we say that is that in some circumstances people can actually pay for the advice and do pay for it directly, and that's why we're encouraging government to consider making it tax deductible. But when you get down to people in this 25- to 30-year age group, who are now taking on mortgages and they're significant mortgages, they've got to pay a lot for the house. They've got stamp duties and so on and then there's the cost of the advice. The cost of the advice is $3,000 to $4,000 every time. That's a significant amount of money for someone just trying to buy a house when they've got all the costs of doing so. What the industry has done is we have a fixed commission rate, 60 per cent in the first year and a 20 per cent trail, so it's even across everyone. All that really is, is the life insurance company effectively funding the advice fee. It should not influence the quality of advice. What we're trying to do is keep it all simple, and that was the point of life insurance framework reforms. People in their older years can afford the advice and they can make a decision to have either part of it funded through commissions or part of it directly. It is a complex area, and there's no doubt about that, but our view is the complexity of life insurance does require people to get advice. We hope, if the industry and government can simplify regulation, it could open up other forms of digital advice as well.

Dr MULINO: Mr Clark, I'm conscious of time, but do you have anything you'd like to add?

Mr Clark: I would just add a few points. First, TAL believes that good, high-quality financial advice is really important for the Australian community. We have seen a significant reduction—I think some reporting suggests it's 50 per cent—in the number of financial advisers who are currently working in the economy. It doesn't feel like it's a good trend for Australia that we have fewer financial advisers providing financial advice, but, for those who are, we want to ensure that they're providing high-quality financial advice, so we welcome a couple of things that are happening, the first of which is the ASIC affordable advice review. Mr Swanson touched on this, around the cost of providing financial advice right now. For a full, holistic and comprehensive financial plan for high-net-worth individuals, that advice may be accessible and may be affordable, but, for many Australians who want simple, bespoke advice on narrow issues, maybe it's not; maybe advice is not affordable. So we welcome ASIC's affordable advice review. We welcome the broader Treasury review into financial advice in 2022 as well because we think we need to have a look at the settings for financial advice in Australia and ensure that it's meeting the needs of Australians.

Dr MULINO: I have one last question, but I appreciate the contextual comments you've both made. I would just say, though, that I get some of those broader comments, but, for me, issues around commissions raise real questions around incentives and also the comprehension by consumers around what they're paying. It's still unclear to me that those are being managed sufficiently, coming out of the royal commission. I had a question around where the industry is going. My understanding is that there had been stability in total premiums in the industry in the years leading up to COVID. It was a bit over $18 billion from 2017 to 2019 and then it had fallen a bit, and then, of course, COVID has affected things yet again. I'm just interested in a period where, obviously, there has been population growth and an increase in the size of the financial services sector. You alluded to some of the challenges that life insurance has faced over the last few years. How is that affecting the risk profile of your clientele, which is clearly going to be a potential source of challenges for life insurance firms?

Mr Swanson: If I may, I will have a go at trying to answer that, because I certainly understand where you're coming from. I'd actually say the biggest issue is for Australian consumers, because, as a number of committee members have alluded to, there have been price increases, and that's because we've been paying out a lot more in claims. I think that, in the last five or six years, claims have gone up 45 per cent or thereabouts across the industry, so it's not an insignificant amount. Our concern, actually, is that fewer Australians are actually having life insurance cover. The impact of that will fall back onto the government social security systems and so on, and I don't think that's a good outcome for Australia as a society. So we are, as Mr Clark alluded to, working through how we can redesign products to make them more affordable but still deliver on the promise of the claim outcome, so to speak. So there are a number of issues that the industry is working through. I would say, on a note of almost optimism—

Dr MULINO: Are we seeing adverse selection? Are we seeing problems in the structure of market?

Mr Swanson: I think that's a very pertinent question. Our concern is to make sure that the pool of people who make an equal contribution to the pool, depending on their risk, make an equal withdrawal, should they have a claim; that is absolutely fundamental to insurance. The APRA intervention is absolutely needed to ensure the integrity of that pool, which will then, hopefully, grow the life insurance industry again and take some of the weight off government, and off Treasury specifically.

CHAIR: Dr Mulino, I've been somewhat generous with time for you. Mr Simmonds, I just need to confirm that you don't have any questions.

Mr SIMMONDS: No questions, thank you.

CHAIR: Ms Hammond, did you have any further questions?

Ms HAMMOND: No.

CHAIR: Did you have any further questions, Deputy Chair?

Dr LEIGH: No. We're at time.

CHAIR: We have a couple more minutes, and I do actually have a couple more questions. Are there any health conditions that lead people to be exempted from being eligible for life insurance products? I'll start with you, Mr Swanson.

Mr Swanson: If they've got a significant cardiac issue of some sort, obviously, they would not be able to get cover because that would work against the pooling concept of insurance.

CHAIR: Understood. Mr Clark?

Mr Clark: I'll just make a couple of comments. Within insurance and superannuation, where cover is provided on a default basis, that's generally not underwritten. All members of superannuation funds get those levels of default cover without underwriting and generally without a health assessment, so they're fully covered in that respect.

For individuals taking out cover on their own, either through the retail channel or direct with insurers, all of those customers would be underwritten and would go through a health assessment as part of that insurance application. Depending on the nature of any health conditions they might disclose, they may get cover, they may get cover with a pricing loading or they may be declined cover. It really does depend on the severity and nature of the health conditions that they would disclose during that underwriting and application process.

CHAIR: Taking off my hat as chair of the economics committee, I'm also Chair of the Parliamentary Friends for Action on HIV/AIDS, Blood Borne Viruses and Sexually Transmitted Infections, and it was brought to my attention recently that HIV-positive Australians aren't eligible for life insurance, even though all the treatment options would now make it completely unjustifiable to deny it. I'm just wondering whether that is the case or not for a life insurance product.

Mr Clark: I would have to check that. There has been a lot of evolution of underwriting processes in relation to a whole host of medical conditions in recent years. As the medical profession gets better at dealing with medical issues and as the insurance industry assesses those treatment options, underwriting approaches change all the time. I'd have to check exactly, more broadly, where we are around HIV conditions.

CHAIR: That would be good. The average life expectancy of somebody who is HIV-positive is now exactly the same, basically, as that of any other member of the community, thanks to the wonders of modern medicine and treatment options. But my understanding is that some products are still denied to people. You make a point about underwriting, but it sounds to me like that may not be reflecting contemporary practice. I would appreciate if you'd look at that. Mr Swanson?

Mr Swanson: Yes, I'd have to check that too, but I would say that, in a number of instances, I'm aware of people who have been able to get what are called limited-duration covers. Instead of having it to the age of 65, as an example, it's for the next 15 years. But I'd need to come back to you with specific details.

CHAIR: So both of you will effectively take that on notice.

Mr Swanson: Yes.

CHAIR: I'm looking forward to the answer to Mr Swanson's question on the response of the board related to JobKeeper as well, as I'm sure the deputy chair is.

Dr LEIGH: Absolutely.

CHAIR: We'll conclude there. Thank you for appearing before the committee today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearing. You'll be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. Thank you.

Mr Clark: Thank you, committee, for the time.

Mr Swanson: Thank you.

FELEDY, Mr Richard, Managing Director, Allianz Australia [by video link]

SCOFIELD, Mr Nicholas, Chief Corporate Affairs Officer, Allianz Australia [by video link]

[11:59]

CHAIR: We have representatives from Allianz Australia appearing for today's hearing. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. I now invite you to make an opening statement.

Mr Feledy: Thank you for the opportunity to appear on behalf of Allianz Australia. Since I appeared before the committee last year, there's been substantial progress in implementing the regulatory reforms recommended by the financial services royal commission. In particular, the unfair contract terms reforms came into effect in April this year, and Allianz undertook a comprehensive program to review nearly 500 policy documents. We also used this opportunity to further improve our policies and make them more transparent and easier for customers to understand. With the passage of key legislation in December last year, many of these reforms will come into effect in October, including reforms to strengthen the hawking provisions and introduce a deferred sales period for add-on insurance. The comprehensive new regulatory regime that will applies to claims handling will start from January next year.

Allianz is supportive of these reforms and is committed to ensuring that our change program meets not only the strict letter of the law but also the spirit of the reforms to drive better customer outcomes. These reforms complement the enhancements we have already made to our Voice of Customer program to ensure that customer outcomes and feedback are continually used to refine and improve our products and services.

Over the year, Allianz's focus has also been supporting our customers through another intense catastrophe season, as well as supporting customers impacted by COVID-19. Since January 2020, we have supported our customers through 11 natural catastrophic events, including the recent flooding in New South Wales and South-East Queensland, the cyclone in WA and the storms and flooding in Victoria. Altogether, the damage from these catastrophes for Allianz customers alone has totalled nearly $1 billion, and the total is more than $7 billion for the industry.

We have also recognised the important role that we can play in the recovery from COVID-19. While many insurance products do not cover for pandemics, over the year we have looked for opportunities to assist our customers where possible. We continue to have a range of support measures available to assist our customers experiencing financial hardship. At Allianz, we recognise our role in helping our customers in their time of need and the broader role insurance plays in rebuilding communities and businesses following catastrophes and life's unforeseen events. In the last year, we have particularly focused on support for customers experiencing vulnerability. Many of these customers experience multiple vulnerabilities, such as mental ill health, financial hardship and family violence. We're assisting these customers using a case management approach.

Allianz continues to reflect deeply on the royal commission's findings. We have implemented a transformative program of work to strengthen our culture, governance and accountability. Looking forward, Allianz welcomes ongoing opportunities to contribute to addressing future challenges, such as the important national conversation about building resilient communities. The industry has a wealth of experience from helping customers rebuild and can contribute meaningfully to the policy dialogue. I thank the committee again for the opportunity to appear, and I welcome any questions.

CHAIR: Thank you very much. I begin by referring to the core motivation for the establishment of this inquiry, which relates to the implementation and oversight of the Hayne royal commission recommendations. You started with unfair contract terms when you were making your comments. How are the royal commission obligations being implemented in Allianz, including the reporting structure to the board?

Mr Feledy: First of all, Allianz supports all the reforms and the actions taken from the recommendations. There were 12 recommendations specifically for the general and life insurance industry and 25 recommendations that have a direct impact on the industry. In terms of our program of work, relating to getting prepared for not just the unfair contract terms but the other recommendations that fall due at the end of this year, we have a robust reporting regime. The board has full oversight of the actions and the programs of works that have been taken. There are three specific programs of work. Our risk transformation program, our compliance maturity program and the risk governance self-assessment action plan all have the full oversight of our board.

CHAIR: When you say 'full oversight', do you mean that there is a report each board meeting on implementation?

Mr Feledy: Yes. There's an update on those three programs of work through the various board subcommittees and ultimately up to the board.

CHAIR: How long are you expecting to continue to provide that reporting?

Mr Feledy: The reporting will be ongoing. First of all, our risk transformation and our compliance maturity program are both fully implemented. In terms of our risk governance self-assessment action plan, we are making really solid progress. I expect it to be fully implemented by the end of this year. But, as we know, implementation is just the first step. It's about embedment. A lot of the changes that we've made, the investments we've made, need to go through cycles so that we can be 100 per cent confident that they are embedded in the business. But in terms of implementation, we're on track for completion, particularly with the risk governance self-assessment program of work, by the end of this year.

CHAIR: And has there been any restructuring in terms of remuneration practices?

Mr Feledy: Yes. Risk gate openers specifically relating to behaviours and outcomes with regard to risk and compliance now apply to all of our employees on variable component programs of incentive payments. Whilst they have always been a component of the variable component targets, they have continued to be strengthened. They are reviewed every year, and, yes, they apply to our staff.

CHAIR: In terms of car insurance, which is obviously one of the many products that you offer, what has been the rate of increase in car insurance as a percentage for the past few years?

Mr Feledy: Could I just clarify: is the question regarding premiums?

CHAIR: In terms of the price of premiums, yes.

Mr Feledy: Up until year to date, we have a 3.4 per cent rate increase flowing through our motor portfolio at the moment.

CHAIR: And what was that in previous years?

Mr Feledy: I'd have to go back and clarify year by year. I don't have the number for the last financial year at hand, so I'd have to take that on notice.

CHAIR: Could you give us that data for the past five years, on notice? I understand you don't have it. One of the things that happened with car insurance last year is that there was a dramatic decline in the extent to which some people drove—particularly, obviously, in Melbourne, but not exclusively there—as a consequence of COVID-19. My understanding is that there's been quite a substantial increase in the number of cars purchased, so the risk-pooling arrangements are likely to become more beneficial. In addition to that, modern technology has decreased overall the rate at which there are collisions associated with cars. So why is there a six per cent increase in insurance premiums in one year?

Mr Feledy: There are a couple of things. First and foremost, the 11 catastrophic events that the industry experienced last year certainly have an impact on pricing. We're observing a two per cent increase in parts pricing to repair cars. It's those prices in conjunction with the increases in our reinsurance: the cost of the insurance that we pay for has also substantially increased, which I think is equally pretty public knowledge.

CHAIR: But why?

Mr Feledy: The fixed costs that we have do need to be passed on to customers. The cost in reinsurance is one of the components. Equally, we're seeing—

CHAIR: You say it's public knowledge, but why is reinsurance for car insurance going up?

Mr Feledy: Motor insurance was significantly impacted, as part of the 11 events last year, certainly for our organisation. That's just one of the components. I'd also call out that, nationally, we have seen an increase in claims frequency. Collision frequency is back to normal, pre-COVID levels and, in many states, slightly higher. Anecdotally, there's an argument that people are resisting using public transport and a lot more people are using their cars to commute. So we did see a return to normal collision frequency towards the tail end of last year as the nation came out of lockdown.

CHAIR: I accept that people have gone back to normal or actually higher frequency driving behaviour. So far you've said that supply issues, outside of the reinsurance costs, are the primary reason for the increase in the price of insurance. Is that because of technological progress and the expense of the price of items, or is that in the context of the constraints in supply that occur as a consequence of supply chains?

Mr Feledy: It's a combination of all of what you've just mentioned. It's a combination of increased claims frequency, so the collision of claims increasing; it's a combination of the increase in the parts pricing; and it also includes the additional cost in reinsurance we're experiencing.

CHAIR: So six per cent for motor insurance. What about for home insurance?

Mr Feledy: Home insurance, year to date, is just under 10 per cent in terms of the rate flowing through that book. If I were to give you a simple comparison—acknowledging that it does include the 11 cat events I referred to before, which totalled $972 million worth of payments in rebuilding those economies and helping our customers repair the damaged properties—the year-on-year increase in average claims costs that we're observing is closer to 25 per cent.

CHAIR: So for car insurance it was six per cent last year. What's it expected to be this year?

Mr Feledy: In terms of?

CHAIR: The increase in the price of the premium.

Mr Feledy: In terms of the projections, we monitor it on a quarterly basis. What we have flowing through is indicative of what we see as the inflationary costs that we're experiencing to date. To predict further forward, it would be consistent with the number I have given you.

CHAIR: So you're saying another six per cent?

Mr Feledy: No. The six per cent is an average rate increase we're observing across the portfolio, and that takes into consideration our views on current inflationary experience in the portfolios we're observing, particularly around those elements I discussed.

CHAIR: Just quickly, before I hand to the deputy chair, to what extent are you modelling the effects of climate change in terms of your insurance policies and what impact it's likely to have on the cost of insurance and premiums?

Mr Feledy: We've made significant investments in terms of the data and understanding the impacts of natural catastrophes. Over the last five years there's clearly been an increase in both the frequency and the severity of events. In particular, there's been an increase in the density of the assets, and the urban sprawl and development, which are also taken into consideration in our modelling. Reinsurance prices, which we talked about before, are also a lead indicator of the ultimate cost that's being borne by industry and companies as a result of these events. But, understanding those communities and the impacts of the perils, where we can, we differentiate the pricing to reward those areas that are taking appropriate management and equally to acknowledge those properties that have been built to more resilient standards in those communities.

CHAIR: Deputy chair?

Dr LEIGH: For customers who are facing the mouse plague currently ravaging the nation, what options do they have to claim?

Mr Feledy: 'Damage by vermin' is what it's referred to in our policies. Starting with the agricultural products, winter crops and broadacre crops are covered against hail and fire only. So there is no cover for damage caused by vermin. In terms of property policies, damage caused by vermin is an exclusion under the policy, in terms of the animal waste. Equally, to give you a practical example, if they chewed through the wiring in your home or chewed through the PVC of your plumbing, that damage is not covered. However, if a fire starts as a consequence of the house having an electrical fault, or an inundation occurs as a consequence of water escaping due to damage to pipes, that consequential damage is covered.

Dr LEIGH: So, unless the mice start a fire in your home, you basically can't claim, which then throws the obligation back on governments—local, state and federal—to look after people who are being affected by the mouse plague, doesn't it?

Mr Feledy: The contracts and the policies that we sell are based on the exposures and the risk that we've priced to. As I mentioned before, our policies would cover any consequential damage but not the damage caused directly by the vermin.

Dr LEIGH: Are you having a lot of conversations with people who are surprised by that, people who've suffered significant vermin damage to their home but now realise that that wasn't something that's covered in their home insurance policy?

Mr Feledy: I'm not aware of any specific complaints that we've received with regard to the problem in the regional areas with the mice.

Dr LEIGH: Are you saying that people are aware of that and therefore aren't making the telephone calls to you or just that you haven't checked the numbers?

Mr Feledy: I don't have the numbers at hand. The numbers I do have at hand, if I can take the period of 2020, including year to date, are that 97.9 per cent of our claims have been paid with regard to the claims lodged across those two major and large portfolios of home and motor, as an example. I could equally share with you that we use a five-star rating value similar to what you use with Uber, where our customers are able to give us direct and immediate feedback in terms of our performance, in not just the settlement of claims but most of the touch points that we have with them. Our current score is 4.4 out of five for motor and 4.1 out of five for home. I must admit, paying particular attention to the verbal feedback that is left by our customers, one of the most reassuring things that I can rely on is that over 50 per cent of our customers are giving us five stars out of five, and the verbal feedback that they leave is as a result of the friendliness and helpfulness of our staff.

Dr LEIGH: We had a conversation on 28 April 2020 about the steps that Allianz had taken to remove unfair contract terms. I asked you which unfair contract terms you'd removed. You said you had a program of work underway. I pressed you a little more, asking you which terms you'd removed. You said you were still working on it but you said you would have it done by April 2021. Given that that date has now passed, I ask you again: which unfair contract terms have you removed?

Mr Feledy: As I mentioned in the beginning, over 500 of our products have been reviewed to make sure that we are fully compliant for the April effective date of the unfair contract terms—

Dr LEIGH: I'm more interested in the outcomes than the process, if we can focus on that.

Mr Feledy: Apologies. With regard to the outcomes, the two probably most significant themes that I would give are, first of all, defining terms that weren't previously defined, and that was to make it easier and clearer for our customers to understand those terms—so, in the categories of where the major changes were made, increasing those definitions to afford better clarity for customers. Equally—

Dr LEIGH: Sorry; could you give me a little bit more clarity on that. I didn't quite understand what you meant by that.

Mr Feledy: In terms of specific terms within the policies where there could be confusion or a lack of clarity as to exactly what is meant by those defined terms, we were making sure that there is a clear definition to aid in that clarity so that people are clear in terms of what they are and are not covered for.

Dr LEIGH: So you haven't removed any unfair contract terms. What you've done is add definitions so as to ensure that contracts weren't unfair by dint of the fact that you might choose then to define the term any way you wanted?

Mr Feledy: The second part that I'd go to was better reflecting existing claims practices and removing areas that had specific time limits on the time periods in which customers had to make claims. That would have been the other area that we really focused on. It uses a customer-inside approach, as I've mentioned before, with our Voice of Customer program and, equally, complaints, with a major investment in what we call insights. Spending time on taking that feedback and making sure that that's turned into actions was where we focused on, in removing any areas we could where there was confusion or misunderstanding. So it was across the claims entitlements and the time periods. Definitions was another category that was focused on. They were the core areas and focus of the unfair contract terms across 500 policies.

Dr LEIGH: How many unfair contract terms did you remove or amend?

Mr Feledy: I don't have a specific number on how many exact terms or changes were made, but I would be happy to take that on notice.

Dr LEIGH: Do you offer discounts to attract new customers?

Mr Feledy: There are a range of discounts that are sometimes applied, yes.

Dr LEIGH: Do you always offer discounts to attract new customers or only occasionally?

Mr Feledy: I wouldn't term them discounts. Most of our pricing is technically priced to reflect the attributes of the risks that we're underwriting. Where there is a discount, it is based on what we see to be a sustainable pricing position and the attributes of the risk that we're looking at. There are other discounts that are applied, whether they be online discounts, that reflect the specific costs associated with the various distribution channels that we operate within and which our customers choose to access through.

Dr LEIGH: Do you have any products where renewing customers pay less than new customers?

Mr Feledy: Yes.

Dr LEIGH: Can you tell me about those?

Mr Feledy: Where the renewal book might be paying a cheaper rate than the new business book?

Dr LEIGH: Yes.

Mr Feledy: There are a series of rating factors that we use. One of them recognises—we try to match, as best as we possibly can, through technical pricing, the risk an individual customer represents to the premium pool. That's basically described as the likelihood and propensity to claim. What we've observed is that as customers stay longer with us that tenure is reflected as part of our rating and can result in renewal customers paying a lower price than new business customers.

Dr LEIGH: Allan Fels, the former insurance monitor for the New South Wales government, has written about the so-called loyalty tax and insurance. He said two years ago that, on average, renewing customers pay 34 per cent more than new customers. Is it true that on average, in Allianz, your renewing customers are paying more than your new customers?

Mr Feledy: I don't have the exact figure, in terms of differentiation at hand with regard to the price—

Dr LEIGH: I'm not asking for it.

Mr Feledy: renewing customers are paying in comparison to our new customers. There are transitional pricing arrangements as we start to reflect new data and the new claims history that comes to light. In the actuarial risk modelling, whilst it might appear quite simple it's not. It's a very challenging exercise, to try to make sure there is equity in the premium that an individual customer pays that presents the risk they pose to the premium pool. Those risk models can change substantially on a year-by-year basis. Rather than passing on those significant changes that can happen on a year-by-year basis in one year, we use pricing mechanisms to transition the portfolio through those rate increases.

Dr LEIGH: Let me tell you about my experience. Every time I switch car insurance I'm able to get a better deal, and when I lock in, premiums seem to go up. My car insurer, no matter who it is, every year, insures my car for a lower value and wants a higher premium for it. I don't seem to be alone in that. The reason for this is simple behavioural economics. Customers are sticky. They don't tend to switch as often as would be economically optimal. My guess is that you are imposing a loyalty tax on your customers, and nothing you've said to me today assures me you aren't.

Mr Feledy: I have a different perspective. Our premiums reflect the costs and the change in the data that we see every year. While I obviously can't comment on your personal insurance situation, we do our absolute best to make sure that each individual risk pays a premium that's commensurate with the risk that applies to the premium pool. That is our approach to technical pricing.

CHAIR: I'm sorry, Deputy Chair, there are other members. We may be able to come back to you. Mr Simmonds, are you still on the call. No. I'll hand over to Dr Mulino, unless he's happy to give you his time.

Dr LEIGH: No, he should take it.

Dr MULINO: In relation to the potential purchase by Allianz of CBA general insurance, I'm curious as to how Allianz is managing either potential or perceived conflicts from the chair being an ANZ director and one of the independent directors being chair of the Bank of Queensland?

Mr Feledy: In terms of the acquisition that we have made with Westpac general insurance, they are separate entities. Obviously, any disclosure of any potential conflicts at the board level is handled at the beginning of any meeting. If there were to be any potential conflict, that director would be removed from any of the decision-making. In the instance of the acquisition that we have made, I don't see any specific conflict. They're separate organisations. Our acquisition with Westpac was the acquisition that was made.

Dr MULINO: Right. So you have made an acquisition in relation to Westpac? My understanding is that you're shortlisted in relation to CBA.

Mr Feledy: I think that's been announced, as to who CBA have sold their general insurance arm to, and it's not Allianz.

Dr MULINO: I'm sorry, I missed that. In relation to both transactions, presumably there would have been a need for some of the directors to manage potential conflicts in relation to those, wouldn't there?

Mr Feledy: I apologise; I'm not trying to be difficult with this, but I don't see the conflict being completely separate entities and having nothing to do with the acquisition that we made. All I can say is that our board, as you would expect, takes any potential conflict very seriously. In any of our business dealings where any member of our board, perceived or otherwise, has a conflict, they would declare that conflict and remove themselves from the discussion.

Dr MULINO: Did that happen in relation to Westpac? Did anybody feel that they had to step out?

Mr Feledy: No. Our board was actively engaged and had full oversight of the transaction. Unless you have a different view, I don't see the conflict.

Dr MULINO: It's a transaction that is affecting an actual competitor in the same sector of which members of your board are also members of another board.

Mr Feledy: I'll just clarify that it was the insurance business that Allianz purchased. It had nothing to do with anything else in the operations of that business, nor am I aware of any conflicts that any of those directors would have had with regard to that bank.

Dr MULINO: Just on a different matter, my understanding is that there is going to be an inquiry by the ACCC into remuneration by insurance brokers in the general insurance sector. One of the questions they're going to examine is whether commissions constitute conflicted remuneration. I'm just interested, what do you think about that broad issue?

Mr Feledy: Certainly we support the payment of commission to brokers. Equally, we think that the review on conflicted remuneration was appropriate. From our position, the most important things are that there is full transparency in what's paid in the commission by an insurer to a broker and that commissions aren't linked to turnover or volume. But commissions play a very important role for the advice that a broker gives to clients. The access and the services that those clients, particularly for the smaller end in the SME area, get from a broker need to be remunerated. At the top end in the corporate area, obviously, there's fee-for-service models and, equally, those businesses would see that value in the payment that they're making in a fee-for-service environment. But I think anything that went to the commission level, particularly for the smaller end and medium-sized businesses could potentially have an unintended consequence of them not getting those services. Remember, a broker accesses many markets, can find tailored solutions for an individual customer's needs, works with them in their risk management, has to comply with obviously all of the compliance laws. If it's done on a transparent and appropriate basis, those services need to be remunerated.

Dr MULINO: I'm just interested in your thoughts on the reinsurance pool that the government has announced in the budget. Allianz has made comments over a number of years on this issue, and I think you've broadly been supportive of a pool in this context. I'm just interested specifically in your observations because I think there's a lot of devil in the detail to be worked out. What are your some of your observations on how a pool will need to be designed to deal with affordability issues? Some have talked about the need to provide subsidies for high-risk households for this kind of solution to work, but for those subsidies to be tapered off. Obviously the payment of subsidies will have an impact on the government's bottom line. But also tapering them off, even over a medium-length of time, will raise issues as to whether households will be able to reasonably afford coverage at the end of that tapering period. Secondly, if a pool like this is going to be implemented, how can issues of an increase in risk be managed in not allowing additional properties to be added to the pool?

Mr Feledy: I think there are some really important points in that question. First and foremost, yes, Allianz since 2011 has advocated for a reinsurance pool. I think many reports have been done in some of the challenges that our communities in northern Australia are experiencing in access to affordable premiums. The reinsurance pool, equally—it's a very astute observation—there is a lot of devil in the detail. It's not just at the level that a company purchases their reinsurance; it's the ground up costs. I better explain what I mean by ground up costs. It's the ultimate cost for cyclone for people living in northern Australia. So where insurers choose to buy their reinsurance from—that is, where we buy our insurance against such substantial events—is one point, but how the government reinsurance pool operates for the peril of cyclone—the mechanics and the details of how that is set up—is going to lead a long way as to exactly how much premium relief our customers would see in northern Australia.

The second part of the question, which is equally important, is the pool is one component; the other one is the continued focus on resilience. If I was to give you a practical example, as an insurer, we recognise the improvements in building standards, so there is differential pricing for houses. If I use houses as an example up in northern Australia—I don't have the exact years in which the buildings standards have changed—those buildings are newer buildings that are built to higher standards absolutely will see the benefit of cheaper premiums. It's the older stock that predominantly is the area that sees the significant prices that we see thrown around in the reports and certainly in the media.

Another good example I'd give you is we looked at constituents in the Northern Territory up in Darwin. After the complete devastation in '74 following Cyclone Tracy, the whole area was rebuilt to some of the highest cyclone standards in the world. Certainly, from our experience, what we see is those standards still stand up better than some of the older stock on the east and west coasts when the events happen. So the insurance industry has an enormous opportunity to contribute with our experience, with our data, in working with government to make sure that the outcomes that are trying to be achieved are achieved, and we fully support the announcement.

Dr MULINO: On that first set of issues, do you support a targeted subsidy that is tapered off over the medium term?

Mr Feledy: We certainly support the government's announcement of the reinsurance pool. The mechanisms that are designed for how people sort of engage with that pool and how it works, I still think there is some great opportunity for those to be worked through. Everybody has exactly the same sentiment. We're all working towards the same outcome, something that delivers on the objectives of why it's been set up. That, hand in hand with the point you made earlier—the resilience, the building standards and, equally, council development of the regions—includes not developing in alluvial flood plains, being very aware of coastal erosion. Equally, some of the challenges you get with cyclones, with phenomenon like wind sheer—the higher you are up the higher the speeds of winds and the more damaging they are for houses that are built on the coastal-facing hills, which is where we like to build to get the best views—all of this information is able to be put in, together with building resilience, to make sure that the objectives are achieved.

CHAIR: Mr Feledy, you said before that collisions for cars were back to prepandemic levels. First I want to clarify, is that a share of total vehicles or is that on incident levels?

Mr Feledy: We refer to frequency levels as a collision rate. The claims frequency that we observe as a percentage across the number of vehicles we insure is back to pre-COVID levels and in some areas higher than pre-COVID levels.

CHAIR: Just for clarity, what is the general trajectory around the rate of collisions in terms of insurance over the past decade? Have people been having more? Is the rate of collisions increasing or decreasing?

Mr Feledy: I'd like to give you the exact numbers, so I'd be more than happy to do that. But certainly from my knowledge, they are relatively consistent. They are significantly impacted, however, when you go through a year like the one we've just been through, which was the single worst year for catastrophes the industry had on record for the last 20 years. When you think about the hailstorms, eastern lows and other events that we had in 2020, they obviously significantly increased the frequency of claims on motor. Remember that it's not just collision claims that our customers are insured for. They're insured for trees falling on their cars while they're parked. They're insured for hail—

CHAIR: Hail the size of golf balls in Canberra!

Mr Feledy: Correct. As I said before, we monitor those statistics closely. That's why, in terms of future projections, we have to reflect the experience that we're seeing in our pricing on a regular basis. Those types of statistics are closely monitored.

CHAIR: I'll hand over to the deputy chair.

Dr LEIGH: I'd like to go back to the issue of the loyalty tax. I notice that some insurers, including IAG and Suncorp, have year-on-year comparison premiums in their renewal notices. Does Allianz have that?

Mr Feledy: We do.

Dr LEIGH: Do you ensure, as part of that, that customers have the amount that is insured? It could be misleading, couldn't it, if you said, 'We gave you comprehensive insurance last year, and we're going to give you comprehensive insurance this year,' and you neglected to say that the value insured had fallen 10 per cent?

Mr Feledy: We have two value options that our customers can choose for motor vehicle insurance. The first one is an agreed value, where the value of your vehicle is agreed up-front, and, yes, that value is clearly shown on your policy schedule. The second policy that some customers opt for is a market-value policy, which insures your car in the event of a total loss. I'll just qualify that total loss claims are the only claims where the ultimate value of your vehicle really comes into play in a decision. In the event of a total loss claim, where a customer has elected to have a market-value policy, they will be paid the market value of their vehicle.

Dr LEIGH: Do you tell customers, as part of that comparison premium, how much you insured them for last year and how much you're proposing to insure them for in the coming year?

Mr Feledy: If I use household as a clearer example, the sum of what we have insured your building and your contents for is clearly demonstrated on your policy schedule. And—

Dr LEIGH: That's an answer to a different question from the one I'm asking you. I'm asking you if, in the comparison, you tell them not only, 'Here's your premium last year, and here's your premium this year,' but also, 'Here's what you were insured for last year, and here's what you're insured for this year.'

Mr Feledy: There are various components to your renewal schedule, but the same document you're referring to includes the basic information you would expect to be there: your policy number, name, address, the property that's actually insured, the value that it is insured for and the policy terms and conditions. That schedule is where we display what you paid for that last year and what you paid for it this year.

Dr LEIGH: I think your answer to my question is no. Is that correct?

Mr Feledy: No. Maybe I'm not clearly enunciating it for you.

Dr LEIGH: You're telling me that the policy includes the person's name, which is really not what I'm asking you about. We're on short time, and I'm asking you a very specific question. You have a comparison of the last year's premium and this year's premium.

Mr Feledy: Yes.

Dr LEIGH: That's good—thumbs up. Now I want to know whether you tell customers another number: here's how much you were insured for last year and here's how much you're insured for this year. I don't want to know whether they can go looking for that. I'm asking whether you tell them that.

Mr Feledy: Yes. We tell them as part of their policy schedule and the renewal schedule, which is the document we issue them on renewal.

Dr LEIGH: Thank you.

CHAIR: A final question from me: in light of the banking royal commission, how do you assess your obligation to put customers ahead of profit?

Mr Feledy: I'm very pleased to say that the Voice of Customer program has never been louder in our organisation. The insights, the investments, the innovation that we've provided to make sure that we are getting direct feedback in real time around the Voice of Customer program that I talked about—but, to be quite clear, if you're not doing the right thing by your customer, it's a hygiene factor for a business. Yes, we are a commercial entity. Yes, we need to achieve our financial targets, but clearly you can't do that sustainably without representing the interests of your customer. I'd be more than happy to go into the detail of how we've invested to make sure that that Voice of Customer is amplified within our business.

CHAIR: Why don't you provide that on notice and we'll take that on the record. That would be helpful. My final question: Cuthbert Heath, the father of modern insurance, famously said, 'Pay all claims,' after the San Francisco earthquake, which led to the building of his business. What is the attitude amongst Allianz today? Pay all claims or—

Mr Feledy: As I mentioned before, if I take 2020, there were 450,000-plus claims paid in that calendar year, plus on a year-to-date basis we paid 97.9 per cent of the claims lodged.

CHAIR: Alright. Thank you very much for your appearance before the committee today. The committee secretary will be in touch with you in relation to any matters arising out of today's hearing. You'll be sent a copy of the transcript of your evidence to which you can make corrections of grammar and fact. We will now suspend the hearing for the lunch recess.

Proceedings suspended from 12:46 to 13:16

HARRISON, Mrs Lisa, Chief Executive Officer, Insurance Product and Portfolio, Suncorp Group [by video link]

SMEATON, Mr Paul, Chief Operating Officer, Insurance, Suncorp Group [by video link]

CHAIR: We now have representatives from Suncorp appearing at today's hearing. I remind you that, although the committee does not require you to give evidence under oath, the hearing is a legal proceeding of the parliament and warrants the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I invite you to make an opening statement.

Mrs Harrison: Thank you, Chair and committee members. The Suncorp Group is a leading financial services provider of general insurance and banking services with approximately 9 million customers across Australia and New Zealand. In my role, I am responsible for insurance distribution channels, brand and marketing, product and pricing. Paul Smeaton oversees all aspects of the group's claims management and operations in Australia, real estate management and procurement. Together we oversee Suncorp Group's well-recognised brands, including Suncorp, AAMI, GIO, Apia, Shannons and Vero.

For the Suncorp Group, the last year was like no other. Throughout COVID-19, our No. 1 priority was to continue to be there for our customers. We did this through numerous support measures, which included premium holidays and discounts to ensure homes and assets were protected. COVID-19 also challenged how we operate. The shift to digital interactions with our customers accelerated, and our staff adopted a hybrid working model. We also increased our support for customers experiencing vulnerability and permanently removed cancellation fees on consumer insurance products. While the community was grappling with COVID, we also experienced several severe weather events, including Tropical Cyclone Seroja in WA, the Halloween hailstorm in Queensland and the New South Wales floods. Our chairman, Christine McLoughlin, recently visited Springfield, which continues to recover from the hailstorm that hit Brisbane in October 2020. Paul and I have also joined our customer support teams on the ground in Springfield.

I also wanted to update the committee on the significant flooding impacting parts of regional Victoria. The Insurance Council of Australia declared the event a catastrophe on 13 June and we've received over 6,000 claims to date. We are on the ground in Traralgon providing support to our affected customers and we have scaled up our flexible claims team. Each of these natural disasters is a real example of the devastating impact these events can have on our community. Suncorp has long advocated for changes to sustainably improve insurance affordability and strengthen community resilience. We believe this can be achieved through four key initiatives: investment in mitigation infrastructure that protects communities; grants for property owners to make their dwellings more resilient; removal of taxes and duties from property insurance policies; and enhancing building codes and better planning to ensure new communities aren't placed at risk. Governments have a role to play too, particularly in supporting more resilient public infrastructure.

We are encouraged to see increased funding for mitigation in recent state and federal budgets, and you only need to look at Roma in Queensland to see the impact this type of investment can have. Around 500 properties were protected by the construction of a flood levee and, on average, those properties experienced a 60 per cent reduction in premiums with some as high as 90 per cent. However, we recognise it also takes private investment. In April this year, we launched One House, which is a partnership with experts from James Cook University, the CSIRO and Room 11 architects to design and test a natural disaster-resilient home. One House demonstrates the benefit of improving building standards. We need to make sure those standards continue to be reviewed as extreme weather increases and impacts communities more than ever. The current building code is focused on saving lives. It doesn't give the same consideration to, say, water and wind entry through windows and doors as it does to keeping the roof on. Suncorp believes that the purpose of the National Construction Code should be expanded to include consideration of increasing resilience of buildings, rather than being limited to only loss of life. Thank you for your time today. Paul and I are very happy to take your questions.

CHAIR: Thank you very much for your opening statements and for covering a number of issues. I want to start with saying that the core purpose of this inquiry is obviously around implementation of the Hayne royal commission's recommendations. Firstly, what has Suncorp been doing to implement those on the insurance side of its business? In addition to that, how is it being monitored and reported, particularly to the board?

Mrs Harrison: We have done a large amount of work, both during and post the royal commission, and maybe if I start with some of the initiatives we implemented during the royal commission. One of those was with the board, where we've established a board customer committee. That committee meets regularly throughout the year. They look at a couple of things, one being customer outcomes, so they monitor initiatives and progress, ensuring customer value as well as taking into consideration the customer culture across Suncorp. At the same time, Paul and I are members of the non-financial risk committee where, on a monthly basis, we review our progress as well as initiatives in managing our non-financial risk. Obviously, in regard to outcomes from the Hayne royal commission, there have been quite a number of changes. I'd like to highlight a couple of them, where I believe there is strong value and there have been good outcomes for customers, and certainly customers experiencing vulnerability. We have trained our frontline teams to identify customers experiencing vulnerability. We have some specialist teams they can refer to and we've also engaged specialist partnerships, such as with Uniting and CareRing, where we can provide specialist support based on their circumstances. I would say that, during COVID-19, that was something that held us in good stead. At the same time, we now provide year-on-year price changes for our customers on their renewal notices so they can know what premium they paid last year and what the upcoming premium is. Obviously, there have been a number of reforms that have been implemented already, such as to unfair contract terms earlier this year, and we are busy working on implementation for the design and distribution obligations, no-hawking and claims handling as a financial service.

CHAIR: In terms of the measures that will be introduced from 1 October, how does Suncorp see the limitations on providing an option that might be in the consumer's interest for the offering of products that bundle?

Mrs Harrison: Maybe I can talk about the no-hawking legislation. As it currently stands, we are still waiting for some final regulatory guidance for that. There may be instances where a customer would typically associate a conversation with their insurance about home and motor. That becomes harder or more complex unless the customer specifically requests to talk about both products. Typically, we often provide discounts for customers if they have their home and motor insurance together with the one insurer. That helps to keep premiums affordable and also, obviously, when they deal with one provider, there is an element of simplicity for the customer, whether it be through the digital tools et cetera that are provided. That is one that we are still exploring. We have raised some concerns that that might be more challenging for customers and add complexity into our processes.

CHAIR: At the end of it, will consumers actually be better off if there isn't the capacity to bundle products as easily?

Mrs Harrison: A couple of things we are mindful of are making sure that there is no detriment for customers around underinsurance. As well, I would hope that customers would still take advantage of discounts with bundling through the one insurer.

CHAIR: Hang on. I pick up my phone, I call Suncorp and I say, 'G'day, this is Tim. I want home insurance,' and, because I have stipulated that, you of course say, 'Well, we can offer the following things for home insurance,' but you might have a bundled product with contents insurance which would be cheaper. But you sell me the home insurance and then, when I go back later, are you going to retrospectively offer me discounts as bundling when you contact me back, saying, 'We have a discount associated with purchasing additional products'?

Mrs Harrison: Retrospectively, you would still be eligible for discounts.

CHAIR: What's the time frame for retrospective eligibility?

Mrs Harrison: If you ring up, and if we offered—under some brands; not all brands offer discounts for multipolicies—that is enacted from when you take out the policy.

CHAIR: So once you bundle it and add on the contents insurance, it would be from that point onward?

Mrs Harrison: For that policy, yes.

CHAIR: My private view is that I am deeply sceptical about the merits of these provisions. In terms of the implementation of such proposals, is Suncorp expecting any sort of adjustment in terms of the degree of insurance it's expecting to sell as a consequence of antihawking provisions?

Mrs Harrison: Not at this stage.

CHAIR: One of the things that has been reported is that Suncorp is aiming to have one in five customers lodge insurance claims through a contact centre versus electronically. I presume that is still the objective?

Mrs Harrison: I might hand over to Paul, who runs our claims operations.

Mr Smeaton: Today, the ratio is about 20 per cent lodged online to 80 per cent lodged via more traditional contact centres. What we have found, particularly during COVID-19, is this move towards doing things digitally. If you take recent events—for example, in Victoria—we've had circa 40 per cent of claims lodged digitally. What we're finding is that there's a move to digital. How do you make the digital experience as good as the call centre experience? We are investing quite a lot of funds in that regard, but we are definitely seeing a move to digital.

CHAIR: How are you investing into delivering that outcome?

Mr Smeaton: It's a material investment in claims, so over the next 12 months it will be circa $50-plus million that we're investing in the whole claims process, not just the digital lodgement and tracking.

CHAIR: Presumably you're making an investment not just because customers might want it but also because, ultimately, it saves Suncorp money over time?

Mr Smeaton: That's right. It's a combination of two things: it will satisfy the customer need—that is, they want to transact with us digitally—but it will also make us more effective and efficient as an operation. This then flows through and helps us in terms of how we price premiums and the like, because we'll be a more efficient, cost-effective operation.

CHAIR: Right. So, when you say the benefit will flow through to premiums, are you expecting a reduction in the cost of premiums, or are you expecting merely a reduction in the rate of increase of the cost of premiums, from reduced overheads?

Mr Smeaton: Reduced overheads will be taken into account as we actually price the policy. I—

CHAIR: If I may, I think you said you're investing about $50 million for—what did you call it?—a comprehensive online experience for digital lodgement. What's the projected saving from going through this method, rather than through traditional methods?

Mr Smeaton: For clarity, it's not just $50 million in claims lodgement and tracking; it's $50 million across the entire claims value proposition. There's the digital experience and then there's how we manage the supply chain, how we set ourselves up for an event response and how we operationally improve our performance. So it's not just specifically on digital; it's an entire program of work across all the claims. That's the clarity.

In terms of the efficiency, I don't have to hand the exact benefits that are driven out of digital lodgement and tracking, but they will be taken into account in terms of the cost of running the organisation and how that then flows into the pricing of policies.

CHAIR: Right. But, as I said, what is the expecting saving as a consequence of that investment of $50 million across the whole of the business?

Mr Smeaton: I don't have the specifics. I'll take that on notice and come back to you.

CHAIR: Alright. I'll hand over to Dr Mulino.

Dr MULINO: Thanks for coming in today to give evidence. The chair asked some questions in relation to how Suncorp has implemented procedures to monitor improvements in practice. There were also some observations about Suncorp's culture that came out of the royal commission, including that the culture favoured growing the business over legal and regulatory compliance. There were some similar observations made about a number of financial sector firms. I'm wondering what some of the major responses to that have been and what some of the internal initiatives around broader culture are, both at very senior levels and right across the firm.

Mrs Harrison: Thank you for that question. In regard to culture, there have been a couple of things we've undertaken. One has been an independent assessment of our culture, and a large number of our employees responded to that. At the same time, we have very clear behaviours and cultural markers that we have established across the organisation. We've workshopped them with teams—what they mean practically. They're very visual. For example, every time you log on to your computer, they're there in your face, on the screen. We assess delivery against those behaviours as part of performance reviews, and that makes up a reasonable portion of people's scorecard outcomes.

Dr MULINO: In terms of some of the practices that were problematic right up and down the organisation—and, again, you weren't the only one—do you have any kinds of measures as to how awareness of the need to change behaviours has seeped in?

Mrs Harrison: Certainly, from a Suncorp perspective, our culture around caring for our people and our customers has always been very high, both pre and post the royal commission. That's something we've been incredibly proud of. It's our role as leaders, both Paul and I, to make sure that that culture is maintained in the organisation.

We do that at a couple of levels. Again, it's the behaviours and how we assess performance against those behaviours with individuals. There are also the processes and systems, and ensuring that the investments we make in our customer-facing systems and services are maintained. In the last year we've made pretty significant investments in the systems our people use, such as our telephony systems. They make it easier both for our staff and customers to deal with this. And there are the digital services which we provide for customers, as well as the transparency we provide to customers about their products—such as providing year-on-year information about their renewal premiums at the same time as disclosure and helping them to better understand their products and services.

We've done that through the unfair contract terms project, where we reviewed over 40 PDS documents and over 70 associated documents. We made sure they're clear and that there were no terms that could be deemed unfair. And we provided additional information and digital tools so that they could better understand their cover.

Dr MULINO: Thanks. I have a couple of questions on the northern Australia reinsurance pool. In the past—for example, coming out of the Trowbridge inquiry—Suncorp expressed some reservations. I do note that Suncorp has expressed a willingness to work constructively with government following the announcement. Accepting all of that general context, I'm just interested in a couple of your observations on some of the issues that are going to need to be worked through in devising this reinsurance pool.

The chair asked some questions earlier about the fact that reinsurance is a material component of cost, but there are going to be limits to the extent to which managing reinsurance will be able to reduce premiums significantly; there are just some significant risks there for certain households. One approach, which the Trowbridge report suggested and which Flood Re has adopted in the UK, is for targeted subsidies. But most policymakers who suggest those suggest that they should be tapered over time. I'm just interested in your thoughts on that approach and the fact that even if you target those and then taper them—even if you taper them over a reasonable length of time—in a sense you then end up with affordability issues still.

Secondly, what are some of your observations? You have been one of the big players in covering flood and storm for a long time, and a leader in many respects. What are some of your concerns around making sure that we don't add to the risk profile that we already have in the community?

Mrs Harrison: I think you have some very good observations. I have a couple of things, if I may? One of the challenges that we have in northern Australia is a risk challenge. There's high exposure to cyclone and flood related to cyclones, as well as flood in the region. Notwithstanding when you put a reinsurance pool in place, you still can't mitigate the fact that there is that exposure. That's why for a period of long time Suncorp has advocated strongly around mitigation, both at a private level as well as at the government and infrastructure level.

In regard to the reinsurance pool: we're working with government on that, now that it's government policy. It's early days, so it's very difficult to be definitive in terms of the pool. There are a couple of things that we note should be considered. There's the scope and definition of what the pool covers, and making sure that it's clear. That's very important, because without that definition it's hard to understand what level of cover would be needed and how that would apply. Then, equally, it's making sure that through the introduction of a pool it doesn't take away the focus of continuing to mitigate the risk.

Dr MULINO: You raised Roma as an example, but doesn't Roma highlight the fact that—given we're going to be implementing some kind of reinsurance pool and that there is now, after the last budget, more money for mitigation—shouldn't we, as a priority, see business cases and rigorous analyses undertaken of the various mitigation opportunities available, not just in this area, but in a range of areas? Otherwise we're not going to be able to get projects invested in quickly and we're not going to be confidence that we're doing the right ones first?

Mrs Harrison: Suncorp would strongly support increased and further investment in mitigation. There has been a lot of work done by local governments, state governments and federal governments, and insurers are willing to help provide insight as to where that mitigation could happen. So, invariably, as you point out, you could develop business cases to assess them and get them moving. As I highlighted earlier, we are pleased to see an increase in funding for mitigation as well as the establishment of a national agency. We would hope it would make it easier for the assessment of those business cases and moving in to getting the bulldozers on the ground.

Dr MULINO: Thanks.

Dr LEIGH: Mrs Harrison, when I spoke to Allianz about the extent to which customers affected by the mouse plague could claim, basically they said that unless the mice start a fire in your home or cause flooding, you can't claim. Is that also true of Suncorp?

Mrs Harrison: Yes, it is.

Dr LEIGH: Do you think that's the expectation that many of your customers had? That mouse infestation wouldn't be covered?

Mrs Harrison: That is an exclusion in the policy—vermin exclusion. It's been in place for a long, long time, and it's clearly disclosed in our disclosure documentation.

Dr LEIGH: I get that it's in the fine print, but that doesn't mean that everyone is expecting it. I suppose many customers might have thought that if mice rampage through your home causing all manner of damage your insurance company would cover it. Have you had many complaints about the fact that you don't cover it unless it causes a fire or flood?

Mrs Harrison: I'm not aware of any complaints and if we have, it would be in the very few.

Dr LEIGH: Your Executive General Manager of Portfolios and Products, Darren O'Connell, said a 'pool will be complex, very costly to government without a clear exit strategy' and 'blunts price signals'. Do you think Treasury should have an exit strategy for the northern Australia reinsurance pool?

Mrs Harrison: That is one of the questions that Treasury has put in the consultation paper: should there be an exit? One of the things we're very keen on is making sure that there is still continued mitigation. I think actually having an exit strategy provides a good incentive to make sure that there is mitigation of those risks at some point in the future. We would probably acknowledge that that exit strategy is going to take some time as the mitigation work starts to be undertaken, both at a household level and a community level, but from a design perspective that should be a strong consideration.

Dr LEIGH: But when you talk about mitigation work, that's the other bit of Mr O'Connell's critique: that if you're blunting price signals, you won't get the sort of mitigation work you would get in the absence of a reinsurance pool?

Mrs Harrison: When Mr O'Connell made those comments, there are probably a couple of things. One is that the design of the pool was not known. Therefore, it might not be right to do a direct comparison with those comments to what is on the table at the moment. Also, it is early days in terms of the pool that is being designed at the moment. There are a series of questions that have been posed to industry groups, and Suncorp has been in the process of responding to those. However, I would also say mitigation is important, because in northern Australia this is a risk problem, and we cannot ignore the risk problem just with economic mechanisms.

Dr LEIGH: To what extent do you see this as being intertwined with the impact of climate change on your business?

Mrs Harrison: The impact of climate change is something that we take very seriously. We certainly believe in the science. I think you would only have to look at the last couple of years to see both increasing frequency and increasing severity of a wide range of perils, whether they be bushfires, floods or cyclones. So certainly, as part of the design, the future outlook around climate change should be taken into account.

Dr LEIGH: But it's not just something that's outside our control, right? If the world moves to more rapid decarbonisation, then that should also mean that the frequency of extreme weather events falls in northern Queensland and therefore the cost of insuring them is lower.

Mrs Harrison: At Suncorp, we've got a climate change action plan that we have been working on, and we've been making good progress. We've got commitments around our greenhouse gas emissions and our contribution to net carbon emissions in that climate change action plan.

Dr LEIGH: Does Suncorp support Australia reaching a target of net zero emissions by 2050?

Mrs Harrison: Suncorp is supportive of the action that the government are taking around climate change, and positive action.

Dr LEIGH: So that's a no, then? Given that the government is not committed to net zero emissions by 2050, you're saying Suncorp is not?

Mrs Harrison: No. There is some work that government is undertaking around climate change, and we support positive action in regard to reducing emissions.

Dr LEIGH: So, even though the Business Council of Australia, the biggest bank, the biggest miner, the biggest airline in Australia and every state and territory government are committed to net zero by 2050, Suncorp, an insurer whose bottom line is adversely affected by climate change, hasn't signed on to net zero by 2050?

Mrs Harrison: No, we have.

Dr LEIGH: You have?

Mr Smeaton: Yes.

Dr LEIGH: You just told me you were supportive of what the government was doing, and the federal government has not signed onto net zero by 2050. So I am asking you a straightforward question: has Suncorp committed to Australia meeting the target of net zero emissions by 2050?

Mrs Harrison: Suncorp has committed to that. Apologies; my comments were to say we see any positive action that governments are taking around reducing the impact on the climate as a positive.

Dr LEIGH: Sure. But if you're in the space of 'anything is good' then you can be in the space that the Prime Minister is in, of saying that he would like to one day aspire to net zero by 2050. That's different from the firm targets that states and territories have committed to.

CHAIR: But not demonstrated how they're going to deliver—just for clarity.

Dr LEIGH: Can I ask about Suncorp health insurance policies. There's a story by Sue Dunlevy which alleges that some health insurers are discriminating against women by forcing them to buy the most expensive gold policies to get cover for pregnancy, and it notes that the National Association of Specialist Obstetricians and Gynaecologists has written to the Human Rights Commission asking for an investigation into this. Are you aware of that issue?

Mrs Harrison: From a Suncorp perspective, we actually are not an underwriter of health insurance. We've got a partnership with nib where they provide the products and services that we offer to some of our customers.

Dr LEIGH: But presumably you're able to answer questions about Suncorp health insurance, even though it's issued through nib?

Mrs Harrison: I can answer quite a number of questions. There may be a few that I might have to take on notice.

Dr LEIGH: What health insurance coverage do women have to purchase, if they're a Suncorp health insurance customer, to get cover for pregnancy and childbirth?

Mrs Harrison: There is some form of cover, but I would prefer if I could take that on notice. Sorry; I'm just not exactly sure I'll give you the correct answer in this setting.

Dr LEIGH: Can I ask you also to take on notice two further questions: firstly, what cover men have to purchase for conditions related to male reproductive health, such as prostate issues, and, secondly, whether you would undertake to change pricing if the Human Rights Commission finds that it is discriminatory.

Mrs Harrison: Yes, I'm happy to take that on notice.

Dr LEIGH: Would you like to answer that second question now?

Mrs Harrison: I'll take both on notice, if that's okay.

Dr LEIGH: So it might be that the Human Rights Commission decided that the price difference was discriminatory and you decided to just keep on pricing it the way it is?

Mrs Harrison: On both of those, I don't profess to be an expert on the pricing mechanism for health insurance, so I will defer and come back to the committee.

Dr LEIGH: Would it trouble you if the Human Rights Commission determined that the pricing was discriminatory on the basis of sex?

Mrs Harrison: In terms of that, we take our obligations very seriously, and we certainly do listen to the Human Rights Commission for all of our products and services, so I'm certainly happy to look into those particular examples that you've raised.

Dr LEIGH: In terms of business interruption insurance, you're part of challenging the decision that policies which referred to the repealed Quarantine Act should be treated as though they'd referred to the Biosecurity Act and, therefore, have business claims denied. What are you doing with claims that have been made on that basis? Have they been paid out, or are you holding back paying out until the final court decisions have been handed down?

Mrs Harrison: I might hand over to Paul, who's in charge of claims.

Mr Smeaton: We've received 728 claims in that regard and, of those, 78 referred to the repealed Quarantine Act. Those claims are actually pending the outcome of the respective court cases. We had the test case today, for which, I don't know if you're aware, the ruling came out, which held in favour of policyholders. That's good in the context of us having certainty around those particular 78 claims, and now we're able to advance those further. Having said that, as you may or may not be aware, there is a second test case which is testing various insuring clauses. As we move through that second test case, we'll be able to get final closure on these claims.

Dr LEIGH: How long will those people be waiting for their money? Presumably you've delayed their claims because of this court case. Now that the court has handed down its decision, can they expect a cheque this afternoon? If not, how long will it take?

Mr Smeaton: No, they can't. I will give a bit of perspective here. As you're probably aware, the insurance industry and Suncorp never intended to cover pandemics. We had an exclusion in place. We never priced for it. We never collected premium. Obviously, our wordings are being challenged, and there's a process by which that is occurring, and that's through the court systems. We've gotten through the first test case. We have certainty on that particular issue. We've now got to wait and go through the second test case, where those insuring clauses will be tested. That is expected to be heard in late August or early September. I think that, once we have closure on that second test case, we can then advance and start paying claims, where the claim actually responds.

Dr LEIGH: These would largely be claims which were put in a year ago, so your clients will wait at least a year to get their money.

Mr Smeaton: That is right. As I say, our wordings have been challenged. There's a process to do that; it's through the court systems. So we're working in that regard. As we get through these various test cases and once we have certainty on the outcomes, we can start finalising those claims which actually respond.

Dr LEIGH: Does your insurance cover an instance in which a customer goes insolvent because it's waiting for a payout that it's entitled to from its insurer?

Mr Smeaton: No. I'm not aware of any cases where our customers have gone bankrupt as a result. I'm not aware of any of those.

Dr LEIGH: Would you pay out early if they were on the brink of bankruptcy?

Mr Smeaton: We'd assess it on a case-by-case basis and, if financial hardship was required, we'd look at it to see how we could support our customers in that regard.

Dr LEIGH: But it's business interruption insurance. Surely you must accept that the purpose of that insurance is to maintain cash flow through difficult times and, if you don't get your payout for business interruption insurance for over a year, you lose the point of the insurance, don't you? These aren't policies to help these people in retirement; they're policies to help the business keep on going—and you're delaying them for more than a year.

Mr Smeaton: I understand your point of frustration. I come back to: the insurance industry and Suncorp never intended to cover business interruption as a result of pandemics. We don't understand the risk, we can't price the risk and we never collected premium for that risk, hence it was excluded.

Dr LEIGH: But you owe the money under the law because your policies referred to a repealed act. Given that you owe the money to businesses who may be on the ropes, wouldn't the right thing be to pay it out rather than to push things out as long as you can?

Mr Smeaton: We're not deliberately [inaudible] longer than they should. As I say, there's a process that we're following, which is the court process. We have certainty on the first test case on the repeal of the Quarantine Act and we understand that, but there are other insurance clauses within the policy that have to trigger for the policy to respond, and they were a result of the second test case in September.

Dr LEIGH: Finally, you said there have been 78 claims. How much money are we talking about across those 78 claims?

Mr Smeaton: I don't have that value.

Dr LEIGH: A ballpark: are we talking millions or billions?

Mr Smeaton: I don't have the answer to that because we haven't gone through the process yet of actually doing all the analysis.

Dr LEIGH: But you must be provisioning for this risk in some way. You must have some sense as to whether we're talking about $100 million or $1 billion.

Mr Smeaton: We've provisioned $214 million in the event of decisions going against us, but, in the context of those 78 claims, I can't give you a figure. I would be misleading you if I tried.

Dr LEIGH: So 78 claims with a total cost of $214 million is what you've provisioned there.

Mr Smeaton: It's not the 78 claims we've provisioned for. In our actuarial analysis we've taken an almost worst-case scenario in terms of determining the $214 million provision. It's not specifically to the 78 claims. We may, in fact, get more claims, and we encourage through brokers and our website people to submit claims, so I wouldn't link the 78 to the $214 million. It's in the event of a worst-case scenario where we get a lot more claims as they flow through.

Dr LEIGH: Thank you.

CHAIR: Ms Harrison, your modelling in terms of the impact of climate change on Suncorp, is that based on Australia's emissions profile or global emissions?

Mrs Harrison: It would be a combination of both.

CHAIR: On what bases would it be a context of Australian-only emissions?

Mrs Harrison: Obviously we look at what our prediction is for the Australian perils in Australia, but climate change is a global issue, so—

CHAIR: I think there's a misunderstanding about my question. When I'm asking about Australia's emissions versus global emissions that's about the concentration of greenhouse gases. When we're talking about weather events, we're talking about localised or regionalised events. Am I understanding correctly that you're referring to localised events rather than localised emissions sources?

Mrs Harrison: Yes, apologies.

CHAIR: So your modelling in terms of the potential impact on climate change is based on the global concentration of greenhouse gases more than it is the regionalised emissions sources.

Mrs Harrison: Yes.

CHAIR: There's obviously a very justified discussion to have around greenhouse gas emissions in Australia and targets that Australia should achieve, but, of course, if Australia was to reduce those to zero in 2050 or tomorrow, your modelling would still presumably assume that there was going to be a higher concentration of greenhouse gases in the world than today because of global emissions—is that correct?

Mrs Harrison: Yes, that would be correct.

CHAIR: Okay, so we can dismiss the rubbish questions about specific government targets and actually focus on the real issues. I'll just quickly talk about car insurance. What has been the rate of increase in car insurance premiums over the past 12 months?

Mrs Harrison: Our customers would have received increases of around three to five per cent over the past year.

CHAIR: We had Allianz before saying theirs was six per cent. Why have you succeeded in keeping yours lower than theirs?

Mrs Harrison: That's a difficult question to answer.

CHAIR: What are the primary drivers of your increase in insurance premiums?

Mrs Harrison: A couple of things are the primary drivers for the increase in premiums. One is our view of natural hazards. Motor insurance is less than home insurance. However, it is subject to the peril of hail. As we all know, we've had quite significant hail, whether it be in Canberra over the last couple of years or in Queensland through Springfield. That makes up a portion of the premium and reasons for the increase. Other things we factor in are parts inflation as well as wage inflation for repairers. A common thing that people often ask me about car insurance is: if my sum insured goes down, why can my premium go up? With regard to car insurance, we are covering both your own car and the damage you can do to other people's cars. So, in most instances, your agreed value or market value for your car goes down. There are some exceptions. I'm sure we all know some happy LandCruiser owners at the moment, with prices going up in the last year. However, we find that, with new cars coming on the road, the likelihood of you hitting a more expensive car increases each year. That's often why you start to see some increases in motor insurance year on year.

CHAIR: So the incidence of you hitting another car or of a collision increases year on year from your ownership—

Mrs Harrison: Of a more expensive car.

CHAIR: So, if you buy a more expensive car, you're more likely to crash it?

Dr LEIGH: No, the other cars on the road are more expensive.

CHAIR: Oh, sorry.

Mrs Harrison: The stock of cars on the road is generally more expensive each year because there is a higher number of new cars in that segment.

CHAIR: We had this with Allianz before. I don't know about anybody else; I've now got a five- or six-year-old car. The technology in the car seems to make it a lot harder to hit another car these days than it used to, certainly from negligence or from not paying attention, which is not a reflection of my driving habits. What is the incidence of collisions? What's the trend line? Is it going down or is it going up?

Mrs Harrison: There are a couple of things. First, I've got a similar car that is far more technologically advanced, and that does help mitigate some smaller type collisions with some of the technology that can automatically brake so that you don't have some of those bumper clashes. However, at the same time, we also find that, typically, the newer cars with more technology, when they do crash, are more expensive to fix. If we think about windscreens 20 years ago, they were a pane of reinforced glass. Now some of those windscreens, for instance, can display a speedometer and key elements, and they're far more expensive to replace. Over the years, we have seen some improvement in frequency because of the technology. But, at the same time, that is, in part, offset through the cost of the repair.

CHAIR: Finally, I asked this question earlier of TAL and ClearView, which is around life insurance, and you offer life insurance products. Are there many—

Mrs Harrison: Yes. We distribute life insurance products that are underwritten by TAL.

CHAIR: That answers that question for me. We're at the end of your session. Thank you for appearing before the committee today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearing. You'll be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact.

HAWKINS, Mr Nick, Managing Director and Chief Executive Officer, Insurance Australia Group Ltd [by video link]

[14:03]

CHAIR: We now welcome representatives from Insurance Australia Group appearing for today's hearing. I remind you that, although the committee does not require you to give evidence under oath, these hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false evidence is a serious matter and may be regarded as a contempt of parliament. I now invite you to make an opening statement.

Mr Hawkins: Thank you, Chair. Good afternoon, committee members. This is my first appearance before the committee since I became chief executive of IAG in November last year. I welcome the opportunity to update you on the matters of interest to this inquiry.

IAG protects around 8½ million people and businesses across Australia and New Zealand. We have a clear purpose: to make your world a safer place. In Australia we do that through the NRMA Insurance, CGU, SGIO, SGIC and WFI brands. Since we last appeared, particular customers have been impacted by the COVID-19 pandemic and a series of significant natural perils. Today I'll update you on the support starting with our response to COVID-19.

We know many of our customers continue to experience financial hardship due to the pandemic. To date we've supported more than 68,000 customers through our Help Program and COVID-19 customer support measures with premium adjustments and deferrals. We know it's a difficult time for many businesses as well, including those that have lodged claims for business interruption. There is a process underway through the courts to determine the insurance industry's exposure to BI claims, and, as we gain clarity from this process, we'll pay the relevant claims as quickly as possible. We continue to keep our customers updated as this progresses.

Moving to perils—when extreme weather events happen, our priority, of course, is to help make our customers safe. We have a dedicated major events team in place to ensure we're always ready to provide on the ground practical help. These include: emergency accommodation, financial assistance and confidential counselling, if required. In March this year I visited some of our customers and people around Batemans Bay on the New South Wales South Coast, who were impacted by the devastating bushfires and had experienced firsthand what occurred. We finalised 97 per cent of the 13,000 claims that we had across our brands, including all of the 800 total losses that we experienced. In April, I visited Port Macquarie and Laurieton, two communities that were hard hit by the severe storms that impacted New South Wales and Queensland. We received more than 14,000 claims, and so far we have finalised around 37 per cent of those. The opportunity to speak with our customers is an important reminder that the work we do as a company and industry in those moments really matters.

We're also supporting customers from the cyclone in Western Australia in April, from which we received more than 1,600 claims of damage to homes, properties and vehicles. More recently, we received just under 6,000 claims, predominantly in property, from the storms and flooding in Victoria.

Finally, with reference to the royal commission's recommendations, IAG has sorted that into two groups: one is the recommendations around customer protection and selling practices, and the other is around culture, governance and remuneration arrangements. We're making changes to how we offer insurance in line with a deferred sales model and anti-hawking reforms, which will enable customers and potential customers to have the appropriate information and sufficient time when deciding to buy insurance. We want to make sure, though, that these reforms don't inadvertently intensify issues around underinsurance or non-insurance, and we're working closely with Treasury, ASIC and the industry to ensure that that doesn't occur. Reforms aimed at improving transparency and accountability will play a role in building customer confidence, including changes that are occurring for us around the financial accountability regime—FAR—which we're we introducing at IAG. Lastly, the changes to improve the General Insurance Code of Practice will also raise service standards beyond the minimum and fill any gaps that may exist in the industry. I welcome any questions from the committee.

CHAIR: Thank you very much, Mr Hawkins. I'll start within the context of the Hayne royal commission—how have the recommendations been monitored in their implementation? How is it being reported at the board level to ensure there's accountability within the organisation?

Mr Hawkins: It's within those groups that I mentioned, around customer selling practices, culture, governance and remuneration. On the first one, we've made significant changes—as I think you've heard from others in the industry—around unfair contracts and through the introduction of a General Insurance Code of Practice. There were some strong recommendations that came out of a report by Sedgwick around remuneration and incentives. We have ensured that within IAG we have aligned the company to that. With remuneration around the introduction of the FAR, the financial accountability regime, we have ensured that we have set the company up in line with the requirements of that [inaudible] in that way. Chair, I think your question was around how that is then reported.

CHAIR: Yes.

Mr Hawkins: I would say on a very regular basis. The particular initiatives are reported every time we have a board meeting. In relation to, say, examples of culture and customer, at a minimum, we have a quarterly reporting process through the company and through to the board around insight and culture and feedback from customers to ensure high visibility within the board around what we're doing and insight that we have and to ensure the appropriate governance structure is in place.

CHAIR: Do any of your brands offer business interruption insurance?

Mr Hawkins: Yes, they do, predominantly through our commercial area, and the main brand is CGU.

CHAIR: The High Court has blocked the business interruption test case appeal. How is that going to impact your business?

Mr Hawkins: I know you've heard from others around this that the intention of the industry was not to cover things like terrorism and pandemic. So, parking that, we obviously have been through the courts to understand exactly how the policies respond in the environment that we now have. The second challenge that we as an industry have is the specifics of how our wordings work now, when they weren't written for a pandemic. The industry—and IAG is part of this—in what's referred to as the second test case, is ensuring that we have consistency across the industry and that customers understand where they sit in relation to the specifics of how policies are going to respond now that we've got clarity on the pandemic exclusion as such and the wording through that first test case.

CHAIR: I understand that. But the question was: what's going to be the impact on your business from this ruling? What's it going to cost you?

Mr Hawkins: In November of last year, when the results of the [inaudible] came through, we looked through and said—assuming that that process sits, and taking a view around the outcomes through this second test case—the impact to IAG was quite significant. We estimated we could incur more than billion dollars worth of claims. Hence we went through a process of raising some money from the capital markets.

CHAIR: In terms of today's decision, it's going to ensure that you need to draw on that capital?

Mr Hawkins: Unfortunately, it's not going to be quite as black and white as that. What the second test is really doing is going to the very specifics of how the industry responds, based upon different scenarios and, through the courts, trying to create some guidelines through which we can get some consistency on how those claim payments are going to occur. As a result of this, there will be some claims that will be paid now, but, unfortunately for us and the industry, the vast majority still require clarity from the second test case.

CHAIR: For clarity, what is it that you as a business are going to do in response to this decision?

Mr Hawkins: The decision to date?

CHAIR: Yes. What business practices—

Mr Hawkins: Is that a question in relation to dealing with existing claimants or in relation to going forward?

CHAIR: Going forward.

Mr Hawkins: Yes, we're going to work our way through this, and significant claims are going to be paid as a part of this process. As a concept going forward, it will not be IAG's intention, nor I believe the industry's intention, to cover pandemic in business interruption. We consider it in the same grouping as war, terrorism and pandemic. There are only very few examples of global specialist insurers, predominantly out of London, that do provide some sort of pandemic coverage. We cannot, through our reinsurance coverage, obtain pandemic coverage, so we are not supported by our reinsurers on that, and that's from the global market. As a concept going forward, I don't think the pandemic inclusion—I think that is your question—will be part of the Australian insurance market.

CHAIR: I have further questions, but I'm going to throw to Dr Leigh, the deputy chair.

Dr LEIGH: Continuing on the rats and mice for customers affected by the mouse plague, I take it that, unless they've caused a fire or a flood, they're not covered.

Mr Hawkins: That's right. I mean, as a concept, Dr Leigh, it's the damage, the knock-on or the impact of that potential plague that, in the example of mice, it creates that then creates the claim that then flows through. As an example, crop insurance, prima facie, does not cover for the mice.

Dr LEIGH: Have your customers been squeaking about this?

Mr Hawkins: I'm not aware of any customer complaints, actually, in relation to this topic.

Dr LEIGH: In terms of your new customers versus your existing customer base, do you offer discounts to new customers that are different from those that you offer to your existing customers?

Mr Hawkins: Yes, we do. The way that that works is for existing customers there are various arrangements that we put in place to recognise the number of years they've been with our company and the number of policies. There are various discounts and loyalty-type arrangements in place for existing customers within our company. I think to your question on new customers: are there examples where, in looking to engage with new customers of our organisation, there may be certain campaigns where discounting occurs? Yes, that does occur and so there could be examples where that new business price is lower than an existing price for an existing customer.

Dr LEIGH: Do you think it's fair that you're offering discounts to new customers that you're not automatically extending to existing customers?

Mr Hawkins: I think that they are different things in that existing customers have other arrangements in place around years of loyalty to IAG or their number of policies, as examples that we have in place for existing customers. I think we're primarily talking about the personal loans business here, where we have campaigns to attract and bring in new customers so we can connect with more of the community. One of the methods of that campaign may be some sort of pricing adjustment discount, which is what you're referring to.

Dr LEIGH: How would you justify that to your existing customers?

Mr Hawkins: As a concept, if that creates more of the community being insured, I think it's a good thing. But I hear your challenge and I know it happens in other industries as well. What we say is that we also reward existing customers through a range of other loyalty arrangements.

Dr LEIGH: You might do that, but certainly Allan Fels's suggestion is that, across the industry, the loyalty tax means that renewing customers pay 34 per cent more than new customers. Would you undertake to take on notice what that figure is for IAG?

Mr Hawkins: Yes, Dr Leigh. I don't have that number off the top of my head. But, yes, I will.

Dr LEIGH: There's a current investigation being handled by your board chair into matters brought to the attention of the board by a whistleblower in March regarding a senior IAG executive. Current and former staff are being interviewed. The whistleblower was promised a response by the IAG independent investigator in late May, but hasn't got one. Is that correct?

Mr Hawkins: The whistleblower process within our company would be dealt with directly by the board. We have quite a process there that the executive team are not involved in, so I don't know if I can respond to the specifics of that question other than to say maybe I can take that on notice. It sounds like that doesn't sound reasonable, if the response hasn't occurred over a period of time, and I'll ensure that that message is provided up to the process of IAG.

Dr LEIGH: Well, when does IAG intend to finalise the investigation?

Mr Hawkins: We don't have that information—people like me and others in the executive management team. If it's a whistleblower incident, it's part of the protocol and the process of the company. So, to provide that information. I will need to engage with the board and the chairman in particular around the particular incident and the timing of the feedback to the individual whistleblower.

Dr LEIGH: Have you been interviewed or briefed as part of the investigation?

Mr Hawkins: Currently, we occasionally do have whistleblower incidents. I'm not familiar with, in particular, this one, and that would normally be the case as well. We have protocols and processes in place to protect the whistleblower in particular and to ensure we have due process.

Dr LEIGH: Just to be clear, have you been interviewed as part of this?

Mr Hawkins: I'm not familiar with the particular issue but, no, I haven't been interviewed.

Dr LEIGH: It just goes to how seriously you take the investigation if you're not getting back to the whistleblower within three months. It does suggest that maybe IAG is taking a fairly lax approach to whistleblower claims.

Mr Hawkins: Can I go back, put that into our process and get feedback?

Dr LEIGH: I appreciate your desire to take it on notice. So you haven't been interviewed and you're saying you haven't been briefed on it either?

Mr Hawkins: The process for whistleblowers at IAG, as I think I've just said, is that, for the protection of the whistleblower as such, there is a process that goes through to the board. There is an independent process around that to ensure that management are not involved in the investigation of any particular issue. There was a three-month delay, which is disappointing, I must say. That doesn't sound like our process [inaudible]. There may be several here, by the way. We ensure that we're appropriately giving feedback to any of those parties involved.

Dr LEIGH: With regard to climate change, you were part of an initiative launched with the United Nations on new risk-assessment tools to make insurance more accessible and affordable. At the time, IAG's Jacki Johnson said:

… something will have to change because you cannot continue to have the carbon emissions and think that the world will be insurable.

Do you still see unchecked carbon emissions as threatening your business model?

Mr Hawkins: I'd say more broadly that we have real challenges in the world. In Australia, we know we have an environment that's subject to natural perils. We know that rising sea water is causing more problems for us as a community, a country and an industry, and we believe that carbon emissions are a contributor to that. So it's a challenge for our community, for our country and for IAG. So yes, very much.

Dr LEIGH: Is IAG committed to net zero emissions by 2050?

Mr Hawkins: Similar to what I just said previously, the more we can do to slow down the change that's occurring and the challenges that creates for our communities and our country, the better.

Dr LEIGH: That doesn't really answer my question. Is IAG committed to the target of net zero emissions by 2050, as the Business Council of Australia is?

Mr Hawkins: Sorry, I wasn't trying not to answer the question. Yes, definitely.

Dr LEIGH: Can you tell us about your decision to not insure gas projects and how that's shaped by the 2050 emissions target?

Mr Hawkins: There are multiple parts to how our business is not really that type of business anyway. It's typically personal loans—motor and home—and a small business insurance provider. Typically, gas projects are at the bigger end of town in relation to insurance providers. So that's just not our typical market. What we've found, both from an underwriting and a risk point of view, is that it's probably not an area that we have expertise in, and we can see the challenges to the environment from that. So the combination of that means at the time that that's not [inaudible] our business.

Dr LEIGH: Thank you.

CHAIR: I want to ask a quick follow on question to the one raised by the deputy chair around net zero for IAG. What is your greenhouse gas emissions profile?

Mr Hawkins: At the moment, we buy to be neutral.

CHAIR: You buy to be neutral—so you're already neutral?

Mr Hawkins: At the moment the profile of our company [inaudible] and that's been the case for, I'd say, 10 years.

CHAIR: Is that scope 1, scope 2 and scope 3 emissions?

Mr Hawkins: I'll come back to you on that, sorry, but I believe it is.

CHAIR: You'll take that on notice then.

Mr Hawkins: I will.

Dr MULINO: I just wanted to go back to the litigation that's underway in relation to business interruption insurance. What's your understanding of the degree to which the wording of the exclusion varies across insurers at the moment?

Mr Hawkins: There are two parts to this, Dr Mulino. One is the exclusion and the way a pandemic [inaudible] the quarantine and biosecurity acts. That's kind of what's being solved now. Then there's the concept of how the wording responds. In particular, with the presence of an infectious disease—COVID-19—and how the policy wording responds, particularly with things like distance of the disease to the business premises and things like that. That's what's really going through the second test case.

Dr MULINO: I'm really just looking at a very [inaudible] level. Based on your understanding, how much does the actual wording vary? Do some exclusions just refer to pandemics? Do some refer to infectious outbreaks and pandemics? Does the wording vary quite a bit?

Mr Hawkins: It does, Dr Mulino, and also wording is different around proximity of the disease to your business premises. Some say on site. Some even have distance bases, like within five kilometres or 10 kilometres, and there are variations of that across the industry. These are the types of things that need to be addressed through the second case.

Dr MULINO: To me, it goes back to this broader issue, and this comes up in a range of contexts. Sometimes firms will say, 'We need the scope to product differentiate and we need choice,' but sometimes the differentiation ends up being in the fine print that nobody really knows. It really doesn't lead to meaningful product differentiation or innovation. I wonder whether, once we get through all this litigation, should we just have a standard exclusion for pandemics, so that everybody, as much as is possible, actually understands what's going on?

Mr Hawkins: Yes, and I think that would be a very—

Dr MULINO: That could be done voluntarily through the code, or it could be done through legislation, but it seems like it's a classic case where the market would probably work better with standardisation.

Mr HAWKE: I [inaudible] comment.

Dr MULINO: I had some questions in relation to customer overcharging. What's the current provision for customer overcharging by IAG?

Mr Hawkins: We've gone through a process of looking back over the last ten years through all of our materials around what we've said in various marketing and other materials versus the actual pricing that occurs. What that has resulted in is a quite significant return of premiums to customers, across a very large number of customers. That provision at the moment is around about $300 million. Sorry, the total amount—we've paid some of that now—but the money we've [inaudible] is something like $300 million over the last couple of years.

Dr MULINO: So that's a substantial increase, quite recently, isn't it?

Mr Hawkins: That's over the last two financial years. I don't have the number at 31 December to hand, but I think it was something in the order of [inaudible] in December, but that's on the back of what's occurred in previous—

Dr MULINO: So what's causing this continued problem?

Mr Hawkins: It's not so much a continued problem. What we are doing, in a very organised way, is looking across all brands and all products across our entire business, going back a significant amount. We're looking at any commitments that we have made, and can we evidence that the pricing that was charged was aligned to any commitment that we made? As an example, there's a sort of discount for over 50. Can we evidence that that occurred? Or, was there some sort of discount for a number of polices? Can we evidence in your premiums that that occurred? Where we can't—we have examples of that, and part of that is some of the complexity of IAG, which we've significantly changed over the last number of years—we've returned premiums to customers.

Dr MULINO: So a lot of it relates to things that have occurred in the past.

Mr Hawkins: Yes.

Dr MULINO: But that raises a question as to why it is taking so long to find out, and why people are only getting what they're owed years after the fact.

Mr Hawkins: We've had significant awareness on this topic over the last number of years, and we wanted to look back. But I accept the point that you're making. What we have done is a huge amount of work to say, 'Let's look at everything we've said over a long period of time across all our brands, and if we can't evidence that we priced the way we said'—and often it's very small differences, but we've gone down that path anyway of making sure we're returning that premium to customers. Our experience with our customers on this topic has been pretty favourable. People can see that we've gone to a lot of effort to ensure that we've made good, if there are any examples where that's not clear.

Dr MULINO: It does beg two questions for me. One is how much more of this should we expect in coming financial years? Secondly, how are you investing in processes, both IT and organisational and cultural, to make sure that the underlying problem is being addressed?

Mr Hawkins: Answering the second question first, we've had significant investment in that topic over the last couple of years, because there were examples where our systems and processes and technology were overly complicated and causing some problems. We've got much greater clarity and accountability [inaudible] systems and processes have been simplified a lot more, and we have a lot more clarity today than versus in the past around how this worked. Our view is that we are remediating and making good some challenges of the past, and we're not creating new ones. We've invested heavily in the organisation to ensure that's the case.

Dr MULINO: I just had a couple of questions on the northern Australia cyclone reinsurance pool. This has been an issue that's been looked at many times in Australia over the last 20 years, with multiple parliamentary inquiries. Trowbridge made a lot of relevant observations, as did the ACCC. I know that you've committed to working with the government on some of the fine details, so I'm not looking for to you pre-empt all of those fine details, but there are some pretty important matters of principle that are important to establish early on in that process. One of them is that there's a pretty significant underlying risk that is there and is driving affordability issues for a lot of households and small businesses. One approach that has been suggested, and it can take many forms, is to subsidise—potentially with a medium-term taper—households and businesses affected by that. But that obviously has an impact on the government's assumption of risk. What are your thoughts on that dimension of the challenge?

Mr Hawkins: It's not easy, this. What we know is that we've got an element of the community exposed to significant perils or risks, and that's causing some problems around affordability of insurance, hence we've got to where we've got to. And that problem, as per that previous conversation, is likely to get worse, not better, in the medium term. This problem is not easy to solve, so I do see a pool as a good resource, but the cost doesn't go away. Yes, there's an element of the pool that essentially removes some cost of capital from global reinsurance, some profit margin from [inaudible] that's what's happening [inaudible]. But there's still going to be some cost that's going to come [inaudible]. I think, over time, the sensible thing for our country is to continue to invest in mitigation to ensure that we don't make this problem worse over the next 20 or 50 years—that we strengthen building standards and we look to where new developments are occurring, always with an eye to the perils exposure and the future cost that could come. And I think you'd like a reinsurance pool that had some sort of a time line to where it didn't exist. I think that's quite a challenge to work that through, though. That's what Treasury are working through right now: how does the life of this work?

Dr MULINO: In terms of the underlying risk, I think in principle most people would agree that it's a first-order issue to stop more risks being added. In a sense, now the government's committed to a pool, it's even more urgent that it puts in place as many mechanisms as possible that stop more risks being added. So, as a matter of urgency, I would have thought the government should be working with other layers of government to deal with things like approvals of new developments. I imagine you'd agree with that proposition.

Mr Hawkins: Correct. We've got what we've got as a country, and development has occurred the way it has. With all the knowledge we have now about likelihood, frequency and severity of weather events and the likelihood that we're going to see more activity coming further south, that where we're all choosing to live, on the east coast, predominantly, leaving further north, we have more of us living in harm's way. As a lifestyle, let's be really careful with the decisions we make, going forward now, because we don't want to make this problem worse.

Dr MULINO: This is my last question. Mitigation, again, is something which certainly the insurance industry has been calling for for a long time, and I think it's a good thing. I think the insurance industry also obviously needs to come to the table with reduced premiums when mitigation investment goes in, and needs to be very transparent on that. Again, isn't it fair to say that, in addition to committing to a mitigation program, we need to be looking at rigorous business cases as quickly as possible to make sure that we're investing in the projects that are the highest priority? That should be a matter of some urgency at the moment, shouldn't it?

Mr Hawkins: I agree, and I think there's more that can be done between governments, local communities and people like us who have knowledge and previous claims experience as well and can model that outcome. The concept of mitigation is great, but we're encouraging greater collaboration between those groups so that, as you've rightly articulated, we can work through business cases and ensure that we really are getting value for the mitigation that's put in place. There are going to be many demands on that capital in the mitigation plans. How do we as a country prioritise that? I think there's some more work to be done in relation to mechanisms for that decision-making.

CHAIR: Can I just ask a question. Why has IAG been the insurer for Greensill, given it's such a risky company with a huge concentration of companies linked to Sanjeev Gupta?

Mr Hawkins: We had a small business, a trade credit business, which we owned 50 per cent of—BCC was its name—that we sold a number of years ago to Tokio Marine. As part of that, there was some exposure, as you've articulated, to Greensill. We no longer own that business, which is now owned by a big Japanese insurer. We're now working through that process with them. From an IAG point of view, essentially Tokio Marine took on the risk of that business, in particular the matters you mentioned. We're working with them and various others as it plays out.

CHAIR: Does that mean that, if the events presented themselves in the same order, you would do it again or that there is regret for that decision or that it is what it is?

Mr Hawkins: This is likely to play out in a number of places, so to make a comment on particular things is probably not ideal. It's kind of what it is is what it is. We've exited this type of business. We didn't see it as being core to what we did at our company, and we sold it a couple of years ago. It's not ideal that the situation is as you've described, and we're managing our way through that.

CHAIR: I'm not sure if this question is relevant, but I'm going to ask it anyway because you have such a broad portfolio that there is a possibility of touching on it. I asked the Insurance Council question this morning related to cyberattacks and ransom payments. Has IAG had either claims requests or considered or would pay ransoms for cyberattacks if they were to be raised in the future?

Mr Hawkins: We talk a lot about this topic. At the moment, we have a concept of coverage for cyber. We're a very small player in this with very small limits. Part of the industry [inaudible], which is [inaudible]. If there is a cyberattack on a business [inaudible] we would cover that claim to a certain extent. If part of the cost ends up being some sort of cost to the negotiation and consultants and even potentially a ransom, my understanding is that that is of the coverage. However, the way it also works, and I think this is standard in the industry, is that none of those payments can contravene any laws. So if there is any sort of suggestion that payments are money laundering or if there are any acts or laws in the country that don't allow it or that you are contravening by making this sort of payment, then that is an exclusion and that payment is not allowed to be made. I think that is the example used in the discussion I heard this morning around what happened in France. Effectively, what the government there has done is legislated against it, which means the insurers just follow suit. So I think what I've described is not just [inaudible] I think that's the way it works around the world. And that's why potential government [inaudible].

CHAIR: Just for clarity, if I understand correctly what you just said, you would consider both negotiation and ransom payments, if they were not deemed to be illegal, to be part of the coverage of policy.

Mr Hawkins: The way that would work in practice is the company that was subject to the cyberattack would be making decisions like the one you just described and would be working out what was best for them. I think this is the area that is likely to see significant change in the next few years. At the moment, the way coverage works, it is included.

CHAIR: Would you agree that if that were allowed to be the case, and insurance companies were eligible, whether the policy covered it or not—you have just, ultimately, said, yes, it would be part of the coverage—that it severely risks or incentivises both cyberattacks and criminals to make requests for ransom payments.

Mr Hawkins: It's the company that's deciding how they might want to address this issue. In a way, that's the way the company wants to manage its risk profile. I think there is a bit of a mechanism. It's not as literal as the way you described, I don't think, because it's not in the company's interest to do that because if they're in the habit of doing that it could occur again and it's likely their insurance premiums would be going up significantly, so there would be a natural correction. What I've described is the way it works at the moment. I'll also comment that we're a very small player in this. I think what I've described is how it works at an industry level. I can see that, over time, this is likely to change for the reasons you've mentioned.

CHAIR: Would you be comfortable if the government banned the capacity for an insurance company to reimburse ransom fees—acknowledging that you would then, I hope, adjust premiums and policy to reflect that reduction of risk—so as not to create these incentives?

Mr Hawkins: I'm not an expert in this area, but, directionally, it sort of sounds sensible.

CHAIR: Directionally it sounds sensible.

Mr Hawkins: I think that's what's happened in Europe, and France [inaudible].

CHAIR: Do you agree that it would be better not to incentivise such behaviour?

Mr Hawkins: I guess I would agree with that.

CHAIR: I didn't quite hear that. You'll have to repeat that.

Mr Hawkins: Yes. Anything to incentivise this topic would be better, so yes, I can't see any reason why what you suggested wouldn't sound like a good idea.

CHAIR: Thank you for your appearance before the committee today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearing. You'll be sent a copy of the transcript of your evidence to which you can make corrections of grammar and fact.

Proceedings suspended from 14:46 to 15:02

CLAUGHTON, Mr Craig, Managing Director and Head of Financial and Professional Services, Pacific, Marsh [by video link]

KEMP, Mr Travis, Regional Leader, Corporate, Commercial and Affinity, Pacific, Marsh [by video link]

LENEY, Mr Scott, Head of Risk Management, Asia and Pacific, Marsh [by video link]

CHAIR: I now welcome representatives from Marsh. Although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as the proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. I now invite you to make an opening statement. Who's doing that?

Mr Leney: Thank you, Chair. I've got Craig and Travis with me. Craig will be best placed to discuss classes of insurance, such as D&O and professional indemnity, including the impact of class actions, and Travis will be best placed to discuss insurance issues arising out of the SME sector. I'll now make a few comments about our organisation and our role.

Marsh is an international insurance broking firm with its headquarters in the United States and with operations in well over 130 countries. We are the largest global insurance broking firm. In Australia, we serve clients in three main segments: (1) risk management, which is our large and complex clients, including multinational corporations, requiring risk advisory, speciality and risk financing advice and solutions, which includes insurance broking; (2) corporate consumer and affinity segment, which is our SME middle-market and group buying clients, where there's still a need for risk advice, but the core service to these clients is insurance broking; and (3) public sector, a specialised segment integrating risk, insurance broking and claims management for government entities. We work with clients of all sizes to understand, quantify and manage risk, and provide options to secure insurance from local Australian and global insurance markets. Insurance broker colleagues apply deep experience and knowledge of client's industries to secure fit-for-purpose insurance cover for their clients with the aim of reducing their total cost of risk, and a big part of that is insurance cost.

It's important to note that Marsh is not an insurer, and our colleagues in the insurance broking profession in Australia do not in the main sell insurance. We and our colleagues principally act for and on behalf of our clients—Australian businesses and consumers—and we arrange for the purchase of insurance on their behalf. Acting for and on behalf of clients gives them access to valuable expertise in relevance to the operation of insurance markets and to the products and services available in those markets. We regularly access a wide range of insurers both in Australia and overseas to secure broad insurance coverage at the most competitive premiums for our clients. Over the last 18 months the COVID-19 pandemic has affected all of us both personally and professionally. Our teams across Australia have been working incredibly hard to help clients manage the rapidly changing risk landscape and to navigate through the continued hard insurance market cycle.

Finally, I'd like to reference the Deloitte Access Economics report on the role and economic value of insurance broking in Australia. This report sets out the value provided by insurance brokers to clients, to the insurance market, and to the economy and community more broadly. If it would help, we can provide a copy of the Deloitte report to the committee for future reference. Thank you, Chairman. We're happy to assist in any way we can today.

CHAIR: Firstly, I prefer to be referred to as 'chair' rather than 'chairman'; it's gender neutral, and I think it makes it easier for everybody. Secondly, it would be helpful if you did provide a copy of that report on notice. Thirdly, the principle purpose of this inquiry that was established at the request of the Treasurer was to oversight the implementation of the Hayne royal commission, noting everything you've said already, including that you're principally a broker. To what extent has Marsh taken any action to implement relevant recommendations from the Hayne royal commission and how is that reported through the organisation?

Mr Leney: The Hayne royal commission didn't have any findings for insurance brokers specifically. What we have been doing is keeping abreast of the regulatory changes that will stem from the Hayne royal commission. We're staying very close to NIBA, the National Insurance Brokers Association, taking the learnings from the royal commission into things like a renewed and refreshed version of the insurance broking code of practice, the timing of which has been based on looking for the insurance code of practice to be released by the ICA. The insurance broking code of practice is in draft, has been issued for consultation, and the responses are now being considered. We're looking to have that issued for the insurance broking industry, and Marsh supports that, in October of this year.

CHAIR: Right, and from there you will sign up to the code of practice?

Mr Leney: Yes, we will.

CHAIR: Where you're perhaps slightly more useful in having a discussion around are some of the trends in terms of insurance and what you're seeing, particularly in the context of those who are customers. We have had a discussion about this already. You might be able to provide insight into not just activities in Australia but elsewhere about the rise of cybersecurity attacks and ransom payments. Are you seeing insurance companies becoming vehicles for the reimbursement of ransom payments?

Mr Leney: It's hard to see evidence of companies who purchase cyberinsurance being specifically targeted by cybercriminals. I'm going to defer to Craig Claughton, who has specific expertise in this area. I would say that the insurance market, generally, for cyberinsurance is very challenged at the moment, with insurers withdrawing capacity and increasing premiums significantly. This has largely been as a consequence of the recent rise of ransomware. What we really have, in my opinion, after a really short period of time, is a situation that is verging on where we were—and, indeed, still are today—with directors and officers liability insurance. Things are very dynamic in that space.

CHAIR: Before we go to Mr Claughton—I'm looking forward to his contribution as well; please don't misunderstand, Mr Claughton—I think a lot of people would find it quite disturbing that there were insurance companies reimbursing ransom payments, critically because of the incentive to go down that path that provides to those seeking to engage in cyberattacks. Is it Marsh's view that, to remove at least an arm of that incentive, it would be welcome if that were to be made an illegal practice?

Mr Claughton: Perhaps I could chime in there, Scott?

Mr Leney: Sure, Craig.

Mr Claughton: The issue of ransomware is significant right now. Our job, as insurance brokers, is to listen to the needs of our clients and try to source for them the broadest cover available in the current market. Most of our clients are terribly concerned about ransom demands being made upon them, so they're looking for us to arrange cover if it's available. Obviously, an insurance contract can't do anything that's against the law, but, at the moment, provided it's not in breach of any laws, insurers are willing to provide cover for ransom demands. Just to be clear: the insurers do not make those payments. They would effectively reimburse a business that may have chosen to make that payment. The payment would come from the company.

CHAIR: Yes, that's an important clarification; I understand. Obviously, based on the fact that a product that can be insured is available in the marketplace, do you believe that it should be the case that reimbursement being made should be a legal practice? Or, as is occurring overseas, where it's being made an illegal practice, should we consider options where reimbursement can't be made? At least, then, the product wouldn't be available and the incentive wouldn't exist, or a part of the incentive wouldn't exist, in terms of a pathway to recoup that lost ransom payment.

Mr Claughton: I certainly understand the question. Thank you for the clarification. I have a fundamental problem: how do you fund criminal activity or do anything that's potentially funding criminal activity? Insurers are equally concerned about this. We are seeing them starting to limit the form of cover that they're willing to provide there, and I wouldn't be surprised if, in the not too distant future, that disappeared completely. I think that, as we've seen in some other countries, if it is made illegal, it may assist that moving forward much more rapidly.

CHAIR: Did you have something you wanted to add, Mr Leney?

Mr Leney: No. I'm fine with what Craig said; I certainly agree with that.

CHAIR: Let's talk about professional indemnity and some of the issues around directors liability insurance and the like. Tell us: what's your perspective? What's happening in that market? How much of a rise in costs is there, and how sustainable is it to have the challenges that are being faced in that space?

Mr Leney: Would it be helpful to let you know what the results of the Global Insurance Market Index for the first quarter were in terms of the prices we're seeing across the Marsh portfolio in Australia, so you can understand where the rises in D&O actually relate?

CHAIR: Sure.

Mr Leney: In the first quarter in the Pacific region, of which 80 per cent is Australia, across all classes of insurance we saw pricing go up by 29 per cent. However, this was the first time in 16 straight quarters where the price increase was less than the previous quarter. The previous quarter—Q4, 2020—was 35 per cent. That's similar to the global trend, where in the first quarter this year overall prices were up 18 per cent. That was the 14th consecutive quarter of price increases as well, so this isn't just something we're experiencing in Australia.

CHAIR: Just for clarity, you're saying 29 per cent, the first one, was below what it was in the previous quarter, and considering it was basically up a third the previous quarter. I don't need specific numbers, but what was it over the past year, past five years? How much has D&O insurance increased?

Mr Leney: Craig, you're best placed to answer that, but we can take it on notice if you want us to be exact.

CHAIR: I'd like it taken on notice, but—

Mr Claughton: I can answer that, Chair. The average premium increase for D&O insurance of our ASX listed companies through 2020 was more than 200 per cent.

CHAIR: Which is patently absurd. What is driving such a ridiculous increase in—I'm not saying you're doing anything wrong, but I'm saying there's clearly something happening. What is it that's driving that?

Mr Claughton: There are a couple of very significant drivers. The class action environment in Australia has been quite prolific. We've seen a significant increase in shareholder class actions in particular, and it's those that drive or impact directors' and officers' liability. It's fair to say that over the past five or six years insurers have paid out significantly to shareholder class actions, and they simply were not charging enough premium for that. However, I think we have now crossed the line where, in our view, they are now charging more premium than for the risk that actually exists, to the point—and I think this is important for this committee—where companies are now looking at the cover that they choose to buy and they're stopping buying protection that they've always had in previous years. They're also having to take on very significant deductibles or excesses, some of which are as high as $100 million or $200 million. That, in a nutshell, is it.

CHAIR: What would the consequence be if they cease to continue to take out that coverage?

Mr Claughton: If companies cease to take it out?

CHAIR: You said before that some of them are no longer taking out coverage as a consequence, so what is the consequence of that?

Mr Claughton: The consequence of that is that that risk then sits on their balance sheet.

CHAIR: I understand that, but how sensible do you think that is, realistically?

Mr Claughton: For some organisations it's very problematic. Really, only the ASX top 20 have sufficiently strong balance sheets whereby they can happily take that risk. For others it becomes much more problematic. I also have a broader concern that, if directors are unable to get the sort of protection that they need, it may disincentivise them from being part of boards, and that has a broader economic impact on us.

CHAIR: In terms of the efforts made by the government around litigation funding to try and restrain the use of the court system for profit, as it were, is that going to have any material impact on the extent to which companies need to take out, or the scale of, D&O insurance?

Mr Claughton: In the initial stages—and remember this legislation has still not passed.

CHAIR: I understand.

Mr Claughton: However, I do commend the government of the day for putting that temporary period in place. To be honest, in the long term, yes, I think it will have beneficial impacts. In the short term it's probably likely to mean that there will be more litigation, because what this law will do is make it a fairer, level playing ground and directors will be more likely to want to go on and defend themselves. So, rather than just settling claims, I think we'll see more protracted litigation. But I don't think that's a bad thing. I think that these changes will also significantly impact litigation funders and their business models, where they were not necessarily interested in access to justice for plaintiffs but were more about procuring a settlement simply because they could and the law was allowing that to occur.

CHAIR: Just going quickly back to cyber, because I didn't actually ask the question: do you have any quantum for the amount of money from the customers you have that have been reimbursed for ransom?

Mr Claughton: I don't have that. As you can imagine, it's quite confidential for clients. What I can tell you is that the ransom demands over the last 12 or 18 months have increased fairly significantly. Where it might have been $500,000 or perhaps $1 million, it's now not uncommon to see $10 million, $15 million, $20 million and beyond.

CHAIR: So you're saying that the amount involved in ransom demands of publicly listed companies has increased in the vicinity of 1,000 to 2,000 per cent in the past 18 months alone?

Mr Claughton: And not just for public companies—public and private.

CHAIR: Fair point. I will just touch on another couple of issues before I hand over to the deputy chair. One of the big discussions that we've had, obviously as a consequence of the events of the past 12 months, is the future of insurance, particularly in the context of insurance coverage and pandemics. I'm talking to travel insurance and what it means for them and everything else. To what extent have you looked at or modelled different insurance options around mitigating the risk of pandemics, and can you?

Mr Leney: Specifically in terms of modelling the mitigation of pandemic risk, I'd say that there are a lot of brains around the world, including ours, on how we can do that. It's still early days in that regard, but there has been a tremendous amount of work done by our organisation at a parent company level—so Marsh McLennan, which includes not just Marsh risk advice and insurance brokers but Oliver Wyman, Guy Carpenter and also Mercer, across broader strategy and people. For example, Oliver Wyman created very quickly Pandemic Navigator, which models the impact of the pandemic crisis on economies, for organisations to judge the impact and make better economic decisions. That's just one example. Here in Australia we launched a Pandemic Response Lifecycle to help them navigate through the various stages of the pandemic life cycle so they could think about risk and what it means for insurance as it progresses. What we're doing at the moment is we have formed a global task force, where we're liaising with insurers; reinsurers; government, where relevant; and clients to try and generate appetite for broader solutions for pandemic risk, because we believe that, if it's left purely to the private insurance market, we're just not going to get the sorts of solutions that will give businesses and consumers adequate protection for future pandemic events. There are options out there, but they're largely geared towards large organisations, given the rates online that they charge, which are generally between three and 10 per cent. So, for example, if an organisation wanted to buy insurance protection for future pandemics for a $100 million limit, that's going to cost somewhere in the region of $3 million to $10 million. If you think about the constituents of the broader economy, they're still largely left out in the cold in terms of the types of business interruption that will be sustained that is not going to be covered under traditional insurance policies.

CHAIR: We heard this morning from Cover-More that the cost of pandemic add-ons associated with their products was 10 per cent. Finally, just in terms of another trend we're curious about in terms of the context of insurance, to what extent—I think I know the answer to the question, which is 'extensively'—is modelling occurring around the different impacts of climate change and insurance and what it's likely to do to the viability of insurance as well as adding on costs, from Marsh's experience?

Mr Leney: I'll kick off. Across our organisation, but also in Guy Carpenter and Oliver Wyman, there's a lot of activity looking to increase the proficiency of climate modelling. We're doing that to help our clients better understand their own exposures so they can make decisions around fit-for-purpose insurance cover that they buy—deductible setting—but also to help them present their risk to the insurance market in a sophisticated way.

You would have heard from the insurers today that they put a lot of energy into improving the modelling around climate risk, but that doesn't always manifest in better outcomes for clients. Sometimes it gives them a greater insight into the enormity of their aggregate exposures and winds up with reduced supplements—and, potentially, increased costs—as they constantly model the increased impact of climate change on the portfolios that they underwrite.

Obviously, it's really important for certain parts of Australia—particularly up north—and it's felt very acutely by the SME client base. We've got not just an availability issue but a huge affordability issue there for those clients as well. That's probably a good intro for you, Travis.

Mr Kemp: Yes, I think you summarised it pretty well there, Scott. It's the challenges and the foresight around natural catastrophe risk—particularly above the 26th parallel, and, if we're looking further south, bushfire risk—and what that means, certainly in terms of future insurance viability for the SME sector. Probably another extension to that is our significant involvement in terms of the rural sector: assisting them in trying to futureproof their positioning around climate change and looking at alternative forms of insurance transfer, such as parametrics, to understand the longevity of results. We're in relatively good times at the moment, but they may not last forever, understanding our climate change challenges.

CHAIR: We could probably talk about this for a fair while, but I'll hand over to the deputy chair.

Dr LEIGH: Thank you, Chair. My colleague Tim Watts gave a speech today to the Cyber West Summit 2021, in Perth. He noted that Standard & Poor's last year predicted that cyberinsurance premiums would increase by 20 to 30 per cent per year on average and said that, in some cases, annual premiums have increased by as much as 50 per cent. Is that what you're seeing in the market?

Mr Claughton: Yes, I think that's a reasonable representation. We generally say that the average increase is somewhere between 30 and 50 per cent at the moment.

Dr LEIGH: He also pointed out that exclusions have increased and that some of the general business insurance products completely exclude cyberlosses. Do you have products of that kind?

Mr Claughton: Yes, indeed, we do.

Dr LEIGH: What steps do you take to inform customers when you put in place a new exclusion of that kind?

Mr Claughton: Remember: we're not an insurer, so we're not putting exclusions in place. We negotiate covers on their behalf, so our obligation is to make them understand what the limitations and breadth of cover are with whatever it is they're purchasing. What we're starting to see in terms of cyberinsurance is that the breadth of cover when the product initially became available was extremely broad and was probably too finely priced. What we've seen over recent years is that the claims are ramping up fairly significantly, so naturally insurers are looking to pare back the scope of cover.

That's in terms of cyberinsurance, but, not to try to make things more complicated, most forms of other insurance—things like property insurance, industrial and special risks insurances, and public and products liability cover—have some components of cyberinsurance. What is happening around the world at the moment is that the insurers of those products are looking to provide certainty for clients around that cybercoverage. They're providing certainty by either confirming that that cover remains or removing it by exclusion. As we're in a difficult market cycle at the moment, predominantly we're seeing exclusionary language come into those other products.

Dr LEIGH: What do we see as typical payout caps for cyber-ransom insurance?

Mr Claughton: I don't have any data on that, I'm afraid. Obviously, the payment cap within an insurance policy is whatever limit the customer chooses to buy.

Dr LEIGH: Sure, but there must be some industry norms around this.

Mr Claughton: I mentioned earlier the sorts of ransom levels that we have been seeing over the last few years. They have been on the increase. As Scott has mentioned, there have been significant percentage increases.

Mr Leney: Are you asking what the limit of liabilities that clients generally purchase is?

Dr LEIGH: Yes,

Mr Leney: Craig, do you have a view?

Mr Claughton: They vary, depending on the size of the company and, of course, how much they're able to buy. Small companies are probably buying $1 million or $2 million of cover, whereas larger global organisations may buy significantly higher levels, into the hundreds of millions.

Dr LEIGH: Do you try and maintain some level of secrecy around that limit in order to avoid a situation in which the extortionist is able to learn what the maximum payout is and demand that maximum payout?

Mr Claughton: We certainly treat all client information confidentially, so we would never be sharing what limits a particular customer is buying—indeed, for any of our customers. Ultimately, it's up to that customer as to what they choose to do with their cover. There are some policies—like directors and officers, for example—where there are confidentiality provisions, so we absolutely go around to try and stop that being publicised.

Dr LEIGH: We know that there are companies that have been hacked. They're asked for a particular amount, they say they won't pay it, and the extortionists then say: 'Well, we're in your systems. We can see your insurance policy. It's up for this amount. That's what we're demanding.' It would seem to make some sense for you to work with clients in order to make sure that, in the process of a ransomware attack, the attacker doesn't also come into possession of the insurance documents.

Mr Claughton: That's a very reasonable position to take, and that's a sensible question. We advise clients to keep all of their insurance arrangements confidential, particularly those that provide third-party liability protection. However, many clients find themselves in a position where contractually they need to provide evidence of the insurance that they put in place, so that's ultimately where it can come unstuck.

Dr LEIGH: So they've emailed off their policy document to someone as part of a contract, and then the email hack finds that document? Is that the sort of scenario you're talking about?

Mr Claughton: Correct, yes.

Dr LEIGH: Would it make sense for you to spend a little bit more or devote a little bit more energy to protecting the confidentiality of those caps? For example, one might imagine some work with the clients to ensure that that particular file had its own password protected encryption.

Mr Claughton: Most of our clients now do work with data going between us and them in an encrypted fashion. It's a reasonable suggestion, and perhaps as an industry we should be looking at it a little more broadly.

Dr LEIGH: It seems like it could save you a lot of money.

Mr Leney: Yes. We can get back to you on this, but I would imagine that our cyber-risk consultancy provides advice to clients around their cyberexposures and helps them quantify what those cyber-risks would be. Also, to mitigate cyber-risk we'd be having discussions with them about this very issue. It's obviously not just the exchange of information between client organisations and us as brokers or, indeed, insurers. These would be in board papers and internal correspondence, cyber just being such a huge issue at the C-suite level and among the boards of organisations in Australia. I think it's a really good point that you raise.

Dr LEIGH: What advice are you giving to clients this afternoon following the High Court's rejection of the claim by insurers that they shouldn't have to pay out despite having the name of a repealed statute in their insurance contracts?

Mr Leney: Trav, do you want to take that one?

Mr Kemp: Yes, certainly. In some ways our advice has not changed. It is that, in all instances, we would represent the client if they have engaged in a loss, and we would lodge with insurers accordingly. It is difficult to give a simplistic answer for each one, as each policy emplacement and business will have its nuance. But, most certainly, we're interested observers, along with our clients, in terms of this morning's findings, and that is the first step in many steps that will follow, in terms of lodging claims on behalf of our clients and supporting them through that process.

Mr Leney: Yes, that's right. I was just going to add to that. As Travis has said, we're encouraging our clients to submit claims when they believe they have a loss under their policy. This change will have our clients looking at their policies again. If they contact us, we'll be urging them to make a claim if they believe they've got a loss, but we'll remind them that there are other facets of the insurance policy that will weigh in, in terms of the insurer's determination, as to whether they're indemnified or not, outside of the issue regarding the Quarantine Act. These are the kinds of issues that are the subject of the second test case.

Dr LEIGH: Do you have any concerns that these claims won't be covered by reinsurance? There's no prospect of an insurer falling over in this space as a result of these unforeseen claims?

Mr Leney: I wouldn't think there was a prospect of an insurer falling over, because the major reinsurers are reinsuring most of the insurance market. This would be a huge issue. But I know that the president of our reinsurance broking company, Guy Carpenter, has gone public, speaking recently around challenging conversations that need to be held with the global reinsurers, who are seemingly dragging their feet in terms of giving the insurance companies the types of commitments they need to hear about their reinsurance protection so they can comfortably engage their clients around indemnity. It's a good point that you raise and, as an organisation, we are making sure that we challenge those reinsurers to come forward, specifically for their clients, who are the insurance companies.

Dr LEIGH: Do you foresee any class actions if the payouts take much longer? Earlier this afternoon I was pressing insurance companies who were saying that they won't pay out within a year of the losses being incurred. Particularly for something like business interruption insurance, it does seem a pretty serious issue if insurers are refusing to pay promptly.

Mr Leney: I think the answer to that is yes. We are aware that there are class action lawyers who are looking at this very issue, so I wouldn't be surprised if you saw a couple of class actions. In terms of the pressure that we will be applying to the insurers who write our clients' business, there's an element of validity about waiting 12 month to see what the actual business interruption loss is, but there will be losses that have clearly been sustained where, if there is indemnity granted under those policies—that's the first step—there would be a case for part payment to help those organisations in Australia continue to prosper.

Dr LEIGH: What's the case for waiting a year to consider a business interruption insurance claim? I would have thought you would be comparing turnover with a previous period, not a future period? A year seems a long time not to pay out.

Mr Leney: That is a great question, and I would think that we were not talking a year from now, unless businesses were being newly affected by COVID-19. I guess that is possible.

Dr LEIGH: No, we're talking about a year from when the hit occurred in 2020.

Mr Leney: Yes, exactly.

Dr LEIGH: Shouldn't this claim have taken months?

Mr Leney: Business interruption policies have an indemnity period. That's usually 12 months, but it varies. It can be longer and it can be shorter. The coverage generally applies for the loss of gross profit that occurs over that 12-month period. For example, if a client loses money in the first three months and then makes up for half of that in the next three months, that will be taken into consideration in the quantification of the total business interruption claim. It is complex, and that's why we have qualified accountants on staff who work with our client organisations to properly quantify their business interruption loss and submit that to insurers to have the best chance of getting it paid.

Dr LEIGH: If only the federal government had thought to come to you when they were designing the JobKeeper scheme. In terms of the impact of these sorts of claims on future lockdowns, are there a range of existing policies that still have wording that refers to the Quarantine Act? Presumably these policies in most cases would be annual but in some cases might operate for three to five years, so therefore there would be firms that had business interruption insurance that refers to the Quarantine Act and currently applies. Therefore you'd think, potentially, lockdowns might lead to claims.

Mr Leney: Trav, you might have a view on that as well. I don't have data on it, but I would answer that I believe that would be the case. There will be ongoing policies. However, if they haven't renewed since the COVID-19 pandemic started, it will obviously be changed. The second point I want to make is that for what we call long-term agreements—where insurers and clients lock in for, say, three years—there are usually provisos attached to those agreements for changes in reinsurance that allow the insurer to go back and renegotiate. So I would imagine that over the course of the next 12 months—probably shorter; think about when the pandemic started—any references to the Quarantine Act will be completely removed across the insurance market.

Dr LEIGH: So most of the claims you're talking about are going to be 2020 claims rather than 2021 claims, then?

Mr Leney: Correct.

Mr Kemp: Correct.

Dr LEIGH: The final issue is one around loyalty taxes. Do they apply in the business space that you're talking about? Do you come across instances in which new customers get a better deal than existing customers, or is that really something that happens more with individuals taking out car insurance where they're getting exploited by insurers taking advantage of their behavioural biases?

Mr Leney: It's interesting. I'm just looking at refinancing my mortgage; it makes me think about that very subject.

Dr LEIGH: It's a classic loyalty tax, isn't it?

Mr Leney: It really is. In this market cycle that we have been in for some four years now, I would say that that principle is not applying across commercial insurance because very few insurers are out there hunting for new business at present, and those that are are certainly not looking to underprice that business to take it from competitors. If they're still getting, on average, a 30 per cent rate increase across their whole book of business, they don't really need to go and do that. But that has been a factor of the insurance market; we know that. There is a new business price that you can achieve when you put a client's business to market, and then there is an existing price, which is generally lower. One of our roles for our clients is to make sure the spectre of competition is present so they can get a good deal.

Dr LEIGH: So your role is, in some sense, fighting against loyalty taxes?

Mr Leney: Yes.

Dr LEIGH: Any advice for customers who are playing in this space without a broker on their side?

Mr Leney: To get a broker.

Dr LEIGH: I walked into that one, didn't I!

Mr Leney: To keep them honest.

Dr LEIGH: I'm not sure I'm going to get a broker when I renew my car insurance, but I admire your tenacity in selling your business! That's all from me, Chair.

CHAIR: I don't know where to go with that one! Thank you for your appearance before the committee today. The committee secretariat will be in touch in relation to any matters arising out of today's hearing. You will be sent a copy of the transcript of your evidence to which you can make corrections of grammar and fact. Thank you very much.

ESSON, Mr Chris, Chief Financial Officer, Australia Pacific, QBE Insurance Australia Ltd [by video link]

GROVES, Mr Jonathan, Chief Risk Officer, Australia Pacific, QBE Insurance Australia Ltd [by video link]

[15:44]

CHAIR: We have representatives from QBE Australia appearing for today's hearing. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. I now invite you to make an opening statement.

Mr Esson: Thank you, Chair, Deputy Chair and committee members, for the opportunity to participate in this hearing. As you may be aware, Sue Houghton has been appointed as the new executive officer for QBE's Australian and Pacific operations, and she'll start with us in August this year.

I'll first address matters raised in the committee's terms of reference before turning to other issues relevant to the committee's work. QBE is focused on implementing the recommendations of the financial services royal commission both in letter and in spirit. We've allocated significant resources towards this over recent years and, given the breadth and scale of the reform program for insurers, we consider we're making good progress despite the operational impacts of COVID-19. The intent of the reforms also aligns with and complements QBE's broader customer centred strategy. Overall, we believe the commission's recommendations will improve customer outcomes and help to restore faith in financial institutions, and we look forward to updating the committee on our work in this area.

Let me turn now to the ongoing pandemic. As the committee is well aware, many Australians have been doing it tough due to COVID-19. For our retail customers, we've provided support for those experiencing financial hardship. That includes discounts and deferrals of instalment payments for our home and contents customers. We also offered our comprehensive motor customers the benefit of a $50 gift card. This was in addition to extra support measures offered to residential customers affected by the Black Summer bushfires. Given the scale of the event and the impact on affected communities, we waived excesses and provided free access to independent mental health services. For businesses, our support program included maintaining expiring premiums for a wide range of business insurances; deferring premium payments; and continuing to provide insurance cover to vacant business premises and commercial vehicles no longer on the road. We also made some changes to our claims processes to minimise the risk of infection to our suppliers and our customers. That included the triaging and initial assessment of property claims through video supplied by customers, and no-contact drop-off and pick-up protocols for damaged vehicles.

Seasonal challenges are constantly alive in Australia, keeping communities around the nation on high alert. I would note that, just in the past few weeks, regional Victoria has been affected by extensive storms and flooding. As an industry, we've responded to many large natural disasters over the past decade, and we've invested heavily in our people and processes to lift our capability to meet this challenge. Certainly, following a major cyclone, flood or fire, those with insurance are much better off than those without. Nonetheless, even fully insured communities still suffer greatly after major events, and we see firsthand the impact of financial disasters on our customers and the communities in which we operate. So too do our partners, the Red Cross and Save the Children, who receive support from QBE for their disaster programs and relief activities.

Our collective experience is that, while many are relieved to know that they will be financially supported in recovery, they still must deal with the disruption to their lives, the loss of meaningful personal possessions and, for some, the trauma of the event itself. For this reason, the end goal must always be to reduce the impact of natural catastrophes on communities in the first place. Effective policies and futureproofing our vulnerable communities and the national economy are a priority now more than ever. As recommended by the bushfire royal commission, we need to ensure that our land use and planning policies and building codes prevent future developments that are not suitable or fit for purpose.

We welcome the additional mitigation and preparedness funding announced in the most recent budget and the establishment of the National Recovery and Resilience Agency. Commonwealth leadership here is both welcome and needed, and state and local government policies are also critical in this space. We are mindful of the community concerns about affordability and availability. As insurance premiums are inherently risk driven, it stands to reason that, as risk is reduced, so too are premiums. Of course, we know that insurers must always strive to improve what we offer and how we support our customers.

We look forward to assisting you with your questions and comments today. Thank you again for this opportunity.

CHAIR: Thank you very much. I'll ask the same question I've basically asked all day. The basis of this inquiry is ultimately the oversight and the implementation of the Hayne royal commission recommendations, but of course there are many other matters that we're discussing as well. Could you just give us an outline of how QBE is monitoring and reporting the implementation of the Hayne royal commission recommendations, including how it's being reported internally, so that we can be confident that there is sufficient oversight of processes and that it is actually being done?

Mr Esson: Thank you for the question. I will hand over to my colleague, Mr Groves, who is the QBE executive responsible for the response to the royal commission.

Mr Groves: Thank you for the question. We absolutely recognise the importance of the royal commission findings, and we established a comprehensive program to implement the changes with a clear focus on ensuring that our customers were treated fairly, and that they built on our strengths of our organisation and very much supported simpler processes. The work that we've done has been guided around ensuring that our solutions deliver value, that we care and make fair decisions, and that we act [inaudible] outcomes. Specific actions taken to date include: a review of our sales practices, including changes to training and our assurance programs; imposing commission caps for prescribed distribution channels; a review of our product disclosure statements; an application for a new AFSL licence, given the changes to claims handling—it being treated as a financial service; enhancing our monitoring and oversight for parties working on our behalf and meeting our customer expectations; and a review of governance, culture, remuneration and accountability frameworks, and adjusting accordingly. Over the past 18 months to two years we've been reporting regularly to our board with regard to progress on this. We've drilled down into specific areas where we do deep dives to show how it's working in practice as well as the overarching program itself.

CHAIR: What's the consequence of the decision of the High Court today, related to interruption insurance for QBE?

Mr Esson: Thank you for the question. As other respondents have covered in this committee today, the test case processes are a multistage process, testing slightly different things. The ruling today does provide clarity with respect to the question raised in the first test case, around the exclusions relating to pandemics and where they're going to operate. That's quite a definitive outcome on that front. In terms of where we stand today, we still have the remainder of the test case processes to go through to provide clarity to customers and the industry in relation to how the wording within policies may respond in relation to COVID-19. That is still to occur; late August is the schedule for our test case No. 2.

CHAIR: Sure, but what's the exposure of QBE based on the decision today?

Mr Esson: In terms of the exposure, we've provided for business interruption and a wide range of potential outcomes. At this stage it's still very early and very difficult to quantify. As a company QBE have not split out the level of that provision, though we have noted that there is some uncertainty in relation to the legal cases, and that the legal process is underway and our position on a group basis is protected by reinsurance. I would say that based within our provisioning is a very [inaudible] and that provisioning did provide for quite a challenging scenario, which will have included the outcome we've seen today.

CHAIR: I would hope, as an insurance business, you were prudent and cautious in your approach in terms of your provisioning. In terms of dollar figures, what's the provisioning you've taken in light of the potential risk?

Mr Esson: Thank you for the follow-up there. As we've discussed, QBE provided a range of disclosures around COVID impacts in its full-year 2020 results. That was an all-in COVID impact, and we provided some colour with respect to business interruption losses. We didn't provide a specific figure to investors in relation to overall provision in relation to Australian business interruption. We did note the uncertainty, and we also noted that our net position for QBE is mitigated by reinsurance.

CHAIR: I suspect I've got as much as I'm going to get out of you on that matter. I keep asking the same question over and over again in different ways.

On ransomware: we've had a discussion this morning and this afternoon with a series of insurance companies who are dealing with the consequence of ransomware associated with cyberattacks. Has QBE reimbursed any businesses for the costs of ransom payments associated with cyberattacks?

Mr Esson: Not that I'm aware of. We're a very small participant in this market and we're very conscious here, I think, of the risk that the availability of insurance for ransom might drive attacks. We do note that there's a need to balance that against the fact that a ransom attack can be very possible for business, which is part of the market in which we operate. But we do suggest that these considerations need to be carefully balanced, and it could be an appropriate area to do more review.

CHAIR: So, just for clarity, you can, under QBE policies, seek reimbursement for ransom payments or you cannot?

Mr Esson: That's something I might need to take on notice, unless Mr Groves has it.

CHAIR: Mr Groves, would you like to offer us your great wisdom?

Mr Groves: Yes! The terms of some of our policies would extend to including ransom payments if the decision was made by the original insured to make that assessment.

CHAIR: On the basis that it is a covered item within the product? Is it included as a standard part of a business product?

Mr Groves: In the small number of cyberpolicies that we actually offer—I should say, that we've sold—there is typically cover for that, albeit a small component.

CHAIR: When you say 'a small component', is it a small component of the overall product or is it a small component in terms of the amount that can be paid out?

Mr Groves: It would vary. I don't have in front of me the specific range of limits that we provide on ransomware specifically.

CHAIR: Could we have that, please?

Mr Groves: We could take that on notice, yes.

CHAIR: Yes, take it on notice. Thank you very much. Just getting onto car insurance, before I hand over to the deputy chair, we heard today from some insurers that they've increased car premiums now by up to six per cent. What was the increase in the cost of car insurance by QBE over the past 12 months?

Mr Esson: For QBE, the increase is in the low- to mid-single-digit range, so I think that our response would be quite similar to others in terms of—

CHAIR: What does that mean? Five?

Mr Esson: three to five per cent.

CHAIR: Three to five. Okay. And is that consistent with year on year, or is that a lower or a higher rate?

Mr Esson: That is an increase relative to the prior year on a year-to-date basis.

CHAIR: Right. We've heard that one of the biggest challenges that have been driving car insurance is the increase in the cost of parts, particularly components associated with more expensive vehicles. But, then, we've had a whole conversation about the frequency or the increase in frequency of collisions, or the absence thereof. What are you experiencing that's leading to increases in car insurance premiums?

Mr Esson: As we look across the different elements of the cost base, clearly, you do have a natural perils component where there is some exposure for motor insurance to things like hail, and fitting into that would also be some of the reinsurance costs. You do, as you highlight, have more expensive parts, and so, to the extent that some of those parts do provide a potential benefit around less severe [inaudible] accidents, they do come with a higher cost to settle. To provide an example here, 10 or 15 years ago, bumpers were pretty much just a piece of plastic. Now you tend to have sensors based within them, and often there will be cameras located within the bumpers somewhere, and so what would have been a relatively innocuous claim a certain time ago is now much more expensive. So you do have various factors contributing there. I would also note that frequency, as others have noted, has increased back towards levels and, in some cases, above levels that we saw before the onset of COVID, and that's a reflection of increased [inaudible] driven changing behaviour around the way in which people use public transport and so forth.

CHAIR: You haven't seen an overall decline in the incidence of collisions that's associated with technology? Mr Esson? Have we lost him? Mr Groves?

Mr Groves: I can't actually answer that question at this point.

CHAIR: Why don't we come back? We might ask that towards the end if Mr Esson comes back. We can keep going if there are questions to Mr Groves that could be asked.

Dr LEIGH: Mr Groves, do you want to answer questions regarding Mr Regan?

Mr Groves: I'm happy to take the questions. If I'm able to answer them, I will do so, but I respectfully remind you that I'm representing the Australia Pacific division in that context.

Dr LEIGH: He was the QBE chief executive, and he was sacked. Why?

Mr Groves: Thank you for the question. As has been stated publicly on the record, I can't add anything to the public statements that have been made. What I can say is that, from a QBE perspective, we have a very clear process and approach with regard to the culture that we expect all of our employees to live by, and that's applied irrespective of the position held. In line with the public statements that were made at the time, the board took decisive action.

Dr LEIGH: Sorry, why was he sacked?

Mr Groves: That was a matter of the public record—

Dr LEIGH: I'm asking you now: why was he sacked?

Mr Groves: On the public record, we have stated it was for inappropriate communication.

Dr LEIGH: Inappropriate communication? It was an email, right?

Mr Groves: I can't add anything further, I'm afraid. I don't have the detail on that particular matter, other than what's in the public record.

Dr LEIGH: You don't have it or you don't want to share it with me?

Mr Groves: I don't have that information.

Dr LEIGH: So you don't know whether it was an email or not?

Mr Groves: That is correct.

Dr LEIGH: If Mr Esson comes back in, should I expect that I'll get a little bit more from him? This is the sacking of your chief executive last September. I'm surprised you can't even tell me what sort of action led to his firing.

Mr Groves: What I've outlined is what's on the public record with regard to inappropriate communication. That's what was shared publicly by the board, and I cannot add anything further to it. All I can reference is the high standards that we expect of all of our employees, irrespective of position. That was acted upon accordingly.

Dr LEIGH: Was it to do with his position at the online consultancy platform Expert360?

Mr Groves: Respectfully, all I can do is repeat myself in that context, because I am in receipt of no further information with regard to the specific circumstances other than the statement that it was with regard to inappropriate communication.

CHAIR: Mr Esson is back, so it might be appropriate to put questions to him.

Dr LEIGH: Mr Esson, do you want to shed any light on the firing of your former chief executive, Mr Regan, and whether that had to do with his position at Expert360?

Mr Esson: I'm in the position where I can only reaffirm exactly what my colleague Mr Groves has provided in terms of the public statements that have already been made.

Dr LEIGH: Has QBE looked at whether there were conflicts of interests between QBE and Expert360 that went beyond Mr Regan?

Mr Groves: What I can speak to you about is the fact that we have a conflicts-of-interest process, which is appropriate, obviously, for a public organisation such as QBE, and it's my understanding that the conflicts-of-interest process was appropriately followed—as I say, to my understanding. Once again, I have not been provided with any further information with regard to that particular piece, other than what was disclosed to the stock exchange at that time.

Dr LEIGH: Expert360 lists QBE as one of the organisations that use its services. Is that correct?

Mr Groves: To my understanding, during 2020 we may well have used their services. That is correct.

Dr LEIGH: But you don't any longer?

Mr Groves: I can't provide any further information on—not that I would—

Dr LEIGH: Hang on, please. The relationship between QBE and Expert360 led to the firing of your chief executive and you can't tell me whether or not you still use Expert360, the firm that was at the heart of the firing of your boss.

Mr Esson: Deputy Chair, I think that you're putting words into Mr Groves's mouth. I don't think that he confirmed that that was the case. I think that all we've done is reiterate the public comments that have been put on the public record by QBE Group.

Dr LEIGH: So you don't know whether or not QBE still has a relationship with Expert360?

Mr Groves: I do not personally, Deputy Chair, that is correct. Mr Esson, I don't know if you personally know that?

Mr Esson: No, it's not something that I can say definitively, albeit I haven't come across Expert360—

Dr LEIGH: Do you feel there was shareholder money wasted in the relationship between QBE and Expert360?

Mr Groves: I think that the best I can offer is to potentially take it on notice. It would not be appropriate for me to comment on individual arrangements we may have had with a provider of services as to whether it was value for money or not when we are not close enough to that detail.

Dr LEIGH: I'd get this if I were just picking a random supplier of services because then it would be an unreasonable question to ask. But this isn't a random supplier of services. This is a supplier of services for which your former chief executive became a board director two months before he was fired. Did QBE approve of the board directorship that he took on?

Mr Groves: QBE categorically have a robust conflicts of interest policy, which we operate as an organisation, and to my understanding that was assessed at the time.

Dr LEIGH: So he wasn't fired for taking on the board directorship—that was known—but he was fired for some email that he sent in September?

Mr Groves: All I can redirect you to is the answer that I gave previously that, as is on public record, due to inappropriate communication, our former CEO is no longer in his role. But I can't—

Dr LEIGH: He just mysteriously fell under a bus, under circumstances into which we can't really go today?

Mr Groves: Well, I think, as we've put on the public record, we said for inappropriate communication, and that's really what I'm able to reiterate at this time, not being privy to any further information to say if there were anything else.

Dr LEIGH: Have you changed any of your processes for managing conflicts of interest?

Mr Groves: We obviously keep our frameworks under continual review to ensure that they are appropriate for an organisation of our standing in that context. I don't believe we've made any recent changes to our conflict of interest policy wording. I think also the reality is that it's a group set standard, and I think obviously we are here representing the Australia Pacific division.

Dr LEIGH: In terms of how his payout was managed, it is interesting to me that, in a world where we often worry about golden handshakes, Mr Regan was forced to go without his share rights, which have been estimated at some $10 million. Do you see that as your processes working effectively?

Mr Groves: I was not close enough to what took place at that time. It was very much a matter for our group board at that time, so I can't really comment any further than that.

Dr LEIGH: Mr Esson, do you know the basis of the termination?

Mr Esson: No, I don't. I'm in the same position as Mr Groves in that regard, as an executive of the Australia Pacific division.

Dr LEIGH: Do you feel as though you're being kept in the dark about this?

Mr Esson: I don't think that's the case. I don't think that's the case. QBE, as a group, has made statements that are clear in this regard, and we're privy to those statements, as you are.

Dr LEIGH: Moving on to the issue of business interruption insurance, you were fairly coy with the chair about the total amount this might cost you, but you must have provisioned some amounts. What have you provisioned?

CHAIR: I asked that question.

Dr LEIGH: Okay. What was the answer to how much you provisioned?

CHAIR: There wasn't an answer.

Dr LEIGH: That's what I thought. Surely, you've provisioned an amount.

Mr Esson: Yes, that's correct. We do have provisions at an AUSPAC level and also from a group-wide perspective. I would say that we have approached the provisioning there in a very prudent way, as you would expect us to, and, as the chair highlighted, he would expect us to. As I highlighted to the chair in response to his question, QBE hasn't provided an expected or estimated exposure in monetary terms for the business interruption insurance in Australia. It has, though, provided a clear indication that there is some uncertainty around the total amount of the loss but that that potential loss is protected significantly by the presence of reinsurance.

Dr LEIGH: Why can other insurers come before us and tell us how much they've provisioned but you can't?

Mr Esson: Because it's relatively nuanced in that we are an Australia Pacific division and we're here representing the division and, clearly, we've provided disclosures at a group level. Given the presence of reinsurance, the group exposure in relation to business interruption is estimated to be a relatively more modest amount. But we have not provided a quantification of the potential range of estimates that we would expect or anticipate from an AUSPAC perspective if the legal processes were to turn out adversely.

Dr MULINO: I've asked a couple of other insurers this. On business interruption insurance, is it your understanding that there's a wide range of wordings of exclusion clauses?

Mr Esson: In terms of exclusion clauses, there are some variations there, albeit most of them reference the relevant legislation around pandemics and the Biosecurity Act or the Quarantine Act. There is a wider variation in relation to some of the other triggers or potential coverage triggers, and they were some of the issues that are to be tested as part of the second test case. That will, we believe, provide clarity to customers and the insurance industry with respect to how the industry should respond to valid claims.

Dr MULINO: Do you think there's some benefit from standardising the pandemic trigger—everybody using a similar phrase or an appropriate and up-to-date legislative reference or standardised phrasing in terms of reference to a term such as 'pandemic', which is clearly understood?

Mr Esson: Yes. In relation to terms like 'pandemic' and 'war risk' and so forth, I think that there would be some value in standardisation so that the expectations in the provision are very much aligned and very clear. I would note that, from an overall perspective, there is likely to be some variation in wording around different types of policies that are provided. Also, customers have different needs, and so wording should reflect that. But I think your central point around particularly important issues like these where there are exclusions, the standardisation of wording would have some value and be worth consideration.

Dr MULINO: I have a couple of questions on the northern Australia reinsurance pool. There's obviously a huge underlying risk, and that is the policy challenge. Part of what the reinsurance pool is aiming to achieve is a reduction in reinsurance costs, but the fundamental challenge is that there are a wide range of residences and small businesses that are exposed to very significant risks of storm and cyclone. Some policy suggestions have been to subsidise some households and small businesses, maybe with a taper over the medium term. Obviously that's some of the detail that's going to be worked out as policymakers and businesses interact with government, but what are some of your thoughts about that overarching policy challenge?

Mr Esson: We would agree with the overall assertion that the key to reducing premiums and improving affordability in northern Australia and in other areas is improving the level of risk. In that regard, I think initiatives aimed at improving the level of resilience—improving building codes and a number of the other areas that others have highlighted today—are well worth consideration. We do think a multifaceted approach is worth exploring. Clearly the root cause is the high level of risk, and addressing that is very important. We do welcome some of the announcements in the recent budget with respect to more funding in the area of resilience and preparedness. So, from that perspective, it's a step in the right direction, and we would support continued development of that in terms of other levels of government. In the context of the reinsurance pool, I think it is quite early. There's a lot of detail yet to be worked through. To the extent that this can provide an incremental benefit to customers through lower costs for the industry, we think it's worth exploring, and we are happy to assist in the consideration around areas like design.

Dr MULINO: One of the underpinnings of an enhanced mitigation program will be, in my view, business cases or similar kinds of analysis of various potential projects. A lot of that work is going to rely upon data from insurers. So, firstly, would you agree with the proposition that, as a matter of some urgency, the government should be pulling together business cases or similar kinds of analysis around candidate projects—Roma is an example of what has already been achieved—so that we can be confident that the highest priority projects are being done in the right order? Secondly, are you committed to working with government at all levels to ensure that that kind of analysis can be undertaken as rigorously as possible?

Mr Esson: Yes. We would welcome continued efforts here to examine ways in which funding can be deployed to improve resilience. As I've highlighted previously, I do think that that is an important part of the overall resolution of the challenge that we all face. In terms of our willingness to participate, of course we would be willing to participate and work collaboratively with government both directly and through our industry body, the ICA, to help inform and develop that.

Dr MULINO: Thanks.

CHAIR: Mr Esson, I want to go back to some questions I was asking earlier around the trajectory of car insurance and collision rates for cars and the relationship between the improvement in technology which should, in theory, lead to cars both breaking down less and being less likely to engage in collisions. Is that an accurate reflection of your understanding of what's happening in cars?

Mr Esson: There are lots of factors which affect collisions in terms of the number of miles driven, the level of congestion and so forth. Technological advancements can play a role in reducing the frequency, but it's one factor amongst a number that will ultimately drive—

CHAIR: But, out of, say, 100 per cent of factors, in what percentage can improvements in technology play a role in reducing collisions? We were talking about this before with a previous witness. I've got a six-year-old vehicle now, but the reality is that it blinks lots of flashy lights and things when I get too near to another car and I've got cameras and everything else. It's actually getting quite hard to engage in collisions.

Mr Esson: Yes, it's very hard to—

CHAIR: Unless it's a rental.

Mr Esson: I'm not sure I can be specific and say that it's definitely X or Y per cent. I think that you're right. What's interesting, though, is the nature of the collisions that it helps to avoid. I do think that some of the technologies we see help to mitigate the risk of some of the minor collisions—the low-speed bumps and so forth. In terms of some of the larger impacts, yes, there may be some benefits there with some of this mitigation, but accidents are still going to happen. In answer to your question about whether I can provide a specific number: no, I'm not able to provide a percentage.

CHAIR: There are obviously a lot of factors that go into car insurance—no-one is arguing otherwise—but is it fair to say that the rate of collisions is declining?

Mr Esson: It's very hard to generalise. I'm not trying to be evasive, and I would be willing to take that on notice and come back to you with more data.

CHAIR: That would be helpful.

Mr Esson: Relative to 12 months ago, for example, when there were very few cars on the road, the rate of collisions has increased. My sense is that collision frequency would have fallen over a longer period of time, but I don't have the numbers to hand to say it was by X or Y per cent.

CHAIR: I think we both know that the past 12 months have been an event rather than a trend.

Mr Esson: Sure.

CHAIR: I'm interested in the trend—that is, whether the rate of car collisions is declining. You have said that you're happy to take what I think is a relatively straightforward question away and get answers to it. The answer is not: yes, they're declining, but when they happen they might be more serious, or, yes, they're declining, but—as another witness was talking about—bumper bars these days have sensors and cameras, whereas they used to be just one piece of plastic. There can be lots of different reasoning, but the question is about what the actual trajectory around collisions is, and it's declining. We were talking before about tennis-ball-sized hail in Canberra and what it can do to cars. I think there was quite a good market for second-hand cars with hail damage only a few months ago.

Dr LEIGH: Particularly around the Australian National University, yes.

CHAIR: There you go. We're not trying to force down particular examples. It's just to try to get clarity about where the market is heading.

Mr Esson: I think, directionally, yes, we are seeing, as you would expect, a reduction in the long-term trend of frequency. The tech is changing rapidly, so I think those trends are still quite variable.

CHAIR: The deputy chair doesn't have any further questions, and I'm really looking forward to getting home. I think we've actually got to the bottom of most of the questions that we had for today. We are going to dismiss you early, which means you can go off and have a relaxing, Friday-afternoon glass of iced water. Actually, I'd best not say that. Thank you for appearing before the committee today. The committee secretariat will be in touch with you in relation to matters arising out of today's hearings. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. Have a lovely afternoon. Thank you, secretariat.

Resolved that these proceedings be published.

Committee adjourned at 16:23