

22 February 2006

Regulation Review
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

ipart@ipart.nsw.gov.au

Insurance Australia
Group Limited
ABN 60 090 739 923
388 George Street
Sydney NSW 2000
Telephone 02 9292 9222
iaglimited.com.au



Introduction

Insurance Australia Group (IAG) welcomes the Independent Pricing and Regulatory Tribunal's Inquiry to identify areas of New South Wales Government regulation which are imposing a significant, unnecessary burden on business and the community.

IAG is particularly encouraged that the over-arching objective of the Inquiry is to determine priority areas in which regulatory reforms could provide significant immediate gains to business and the community.

Who is Insurance Australia Group?

IAG is the largest general insurance group in Australia and New Zealand (by reference to premium written in these countries). It provides personal and commercial insurance products under some of the most respected and trusted retail brands including NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance in Australia, and State and NZI in New Zealand.

IAG's core lines of business include:

- Home insurance
- Motor vehicle insurance
- Business insurance
- Consumer credit insurance
- Product liability insurance
- Compulsory third party (CTP) insurance
- Workers' compensation insurance
- Professional risk insurance



IAG has a crucial interest in the long-term viability of insurance as a product valued by the Australian community. IAG believes that there are four principal ways in which the insurance industry can best meet these objectives. These are:

- Investing in robust risk control frameworks and mechanisms that protect policyholders and provide certainty to shareholders;
- Pricing products realistically;
- Ensuring that customers understand what they are buying when they purchase a policy, and that products do not arbitrarily advantage or penalise particular individuals or groups; and
- Committing to, and supporting, on a continuing basis, a comprehensive and clearly defined regulatory framework that facilitates more affordable premiums and more predictable claims costs.

What is IAG's Interest in the Inquiry?

General insurers are subject to a significant amount of regulation. There is the corporate regulatory regime that applies to Australian incorporated businesses generally. This includes the legislative regimes of the *Corporations Act 2001*, the *Trade Practices Act 1974*, State Fair Trading legislation and, for public listed companies such as IAG, the requirements of the Listing Rules of the Australian Stock Exchange.

General insurers are also subject to a range of industry specific regulations at Federal (eg FSR provisions of the *Corporations Act*, *Insurance Act 1973*, and *Insurance Contracts Act 1984*), State and Territory levels. These regulations subject insurers to prudential supervision, market conduct and consumer protection requirements.

IAG believes that regulation has an important role to play within the Australian insurance market. The difficult task is to strike an appropriate balance. Overall there is the need for an Australian regulatory regime sufficiently robust to assist with the stability and profitability of the insurance sector. IAG cautions against regulation that has the potential to unduly inhibit factors such as the discretion of management, the supervisory functions of Board directors and market influences.

Importantly, the regulatory regime needs to provide a competitively neutral system that allows all industry participants to compete on the same consistent regulatory playing field and avoid or minimise incidents of regulatory overlap and inconsistency.

While acknowledging that the Tribunal's Review is focused on New South Wales regulation, IAG believes the Australian Government's Taskforce on Reducing the Regulatory Burden on Business and in particular the Insurance Council of Australia's (ICA) submissions and the Finance Industry Council of Australia's (FICA) submission to the Taskforce will be relevant to the Tribunal's Review. <http://www.regulationtaskforce.gov.au/submissions/index.html>

Indeed, the FICA submission notes

“it needs to be recognised that the success of market economies is built on their ability to respond flexibly and in innovative ways to changing circumstances. Rigid regulations can harm this flexibility. Thus, the presumption should be to intervene only where there is a clear need and to do so in ways that minimise costs and distortions. Wherever feasible, policy-makers and regulators should aim to establish the objectives that the policy or regulations aim to achieve and then design regimes that allow these to be carried out in a flexible rather than prescriptive manner” (FICA submission to Australian Government Taskforce on Reducing the Regulatory Burden on Business, November 2005, p.1).

Priority Areas for Regulatory Reform in New South Wales

Priority areas in which regulatory reforms at the State level could provide significant immediate gains to business and the community are detailed below.

- **Workers’ Compensation Regime and Occupational Health and Safety**

The compulsory nature of workers compensation and its role in the broader industrial relations environment have resulted in a far more intense level of regulation and Government intervention than any other insurance product. To date this regulation and Government intervention has been almost entirely State-based in Australia (other than for Federal Government employees and seafarers). The result is the current patchwork of different schemes for each State and Territory, plus specific national schemes for Federal Government employees and seafarers as well as special schemes such as the coal miners’ in New South Wales. Each has evolved largely in isolation with very limited coordination at the national level. While all these schemes are under almost continual review, there has been no change to the fundamental structure since the 1980s. Provision of workers compensation continues to be dominated by the State public sectors and licensed private insurers remain excluded from direct underwriting in four of the five larger States.

Occupational Health and Safety regulation is similar to Workers Compensation in that there is very limited coordination at the national level. As a result businesses experience a significant compliance burden and cost in meeting the requirements of up to ten different OHS regimes between the Commonwealth and the various States and Territories. This involves conforming to a myriad of legislative requirements including OHS Acts, regulations, codes of practice, advisory standards and guidelines resulting in inconsistent regulation, duplication and uncertainty especially for national employers, employing people across Australia.

LAG supports nationally consistent frameworks in the key areas of workers’ compensation insurance and occupational health and safety; such frameworks would remove unnecessary costs and compliance burdens while at the same time act to deliver optimal outcomes for injured workers and provide employers with a regulatory environment better attuned to modern business practices.

A well-designed and administered national system for workers compensation can deliver fairer support for injured workers, by eliminating arbitrary differences in entitlements for the same injuries, and better social and health outcomes through better performance measures and better targeting of services. A competitive national market will reward good employment practices with affordable premiums and create real incentives to reduce risks and prevent accidents.

In 2003, the Productivity Commission was asked to conduct an Inquiry into “National Workers Compensation and Occupational Health and Safety Frameworks”. The scope of the Inquiry was to assess possible models for establishing national frameworks for workers compensation and OHS arrangements. IAG put forward a number of options for a privately underwritten national workers compensation scheme.

The Productivity Commission reported in March 2004. It identified a lack of consistency between State, Territory and Federal schemes and acknowledged the substantial difficulties and costs of complying with multiple inconsistent schemes, for employers operating across State boundaries. The Productivity Commission recommended that the Australian Government develop an alternative national workers compensation scheme to operate in parallel to existing State and Territory schemes through a three step progressive development. The first stage would allow eligible employers to self insure under Comcare. The second stage would develop a national self insurance scheme for corporate employers. The final step would be to develop an alternative national premium paying insurance scheme for corporate employers which would be competitively underwritten by private insurers. The Productivity Commission also recommended that a national body be established to regulate the scheme.

The Federal Government responded by acknowledging the need to work for national consistency but did not support the key elements of the Productivity Commission’s proposed national framework model.

IAG’s position remains that a nationally consistent, robustly regulated, workers’ compensation and occupational health and safety regime, is in the best interests both of injured workers and employers. It might be that a larger, populous State, such as NSW, needs to re-examine all relevant aspects of this issue and be prepared to push for national reform.

Further details of IAG’s public policy position in relation workers compensation and occupational health and safety regimes are outlined at:

<http://www.iag.com.au/pub/iag/results/submissions/media/200504NationalCompPolicy.pdf>

<http://www.iag.com.au/pub/iag/results/submissions/media/20040601a.pdf>

<http://www.iag.com.au/pub/iag/results/submissions/media/20030601b.pdf>

- **Taxation on Insurance**

Governments should recognise the essential benefits of insurance to the economy and community generally and implement a taxation system, which encourages insurance.

IAG argues that there is a clear economic case for reducing State Government insurance taxes and charges ahead of many other taxes in order to reduce the taxation impost on insurance premiums to businesses and households.

IAG believes the taxation of insurance is an historical anachronism that is indefensible upon the generally accepted principles of taxation of simplicity, efficiency and equity. These tax regimes are inappropriate, regressive and based on historical circumstances rather than any concept of tax equity. These regimes contribute to under-insurance and non-insurance, with consequential negative fiscal impacts as the public purse is inevitably called upon in times of climate related disasters.

Taxation Burden on Australian Insurance Sector

Australian Bureau of Statistics (ABS) data indicate that nationally, taxes on insurance totalled \$3,231 million in 2003-04, up \$99 million or 3.2% on 2002-03 (\$3,132 million) and accounted for 1.3% of total taxation revenue collected in Australia in 2003-2004.

	2000-01	2001-02	2002-03	2003-04	Change 2002-03 to 2003-04	Contribution to total taxes 2003-04
	\$m	\$m	\$m	\$m	%	%
Taxes on Insurance	2 403	2 836	3 132	3 231	3.2	1.3

Source: ABS (2005), *Taxation Revenue Australia 2003-04*, Cat.No. 5506.0, April 2005.

Taxes on Insurance 2003-04

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	TOTAL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Insurance companies contributions to fire brigades	378	294	-	-	31	30	-	-	733
Third party insurance taxes	24	103	48	38	-	3	-	-	215
Taxes on insurance nec	795	556	319	228	298	30	20	38	2 283
TOTAL	1 198	954	366	265	328	63	20	38	3 231

nec not elsewhere classified

na not available

Source: ABS (2005), *Taxation Revenue Australia 2003-04*, Cat.No. 5506.0, April 2005.

Impact of Government Taxes and Charges on Insurance Premiums

By way of explanation, a hypothetical basic premium of \$100 is used to demonstrate the taxation impost of insurance taxes on final premiums to businesses and households in Western Australia and other States. Details are outlined in the following tables.

Impact of Government Taxes/Charges on Business Insurance Premiums – Metropolitan

	Basic Premium \$	Fire Levy \$	GST \$	Stamp Duty \$	Total Cost \$	Impact of Govt taxes %
NSW	100	30	13.00	12.87*	155.87	55.9
VIC*	100	37	13.70	15.07	165.77	65.8
QLD	100	-	10.00	8.25	118.25	18.2
WA	100	-	10.00	11.00	121.00	21.0
SA	100	-	10.00	12.10	122.10	22.1
TAS	100	28	12.80	11.26	152.06	52.1
ACT	100	-	10.00	11.00	121.00	21.0
NT	100	-	10.00	11.00	121.00	21.0

* In country Victoria the fire services levy is 50%, with the total cost of a \$100 premium \$181.50 as a result of Federal and State Government taxes/charges.

* Effective from 1 September 2005, stamp duty rate increases from 5% to 9% in NSW.

It should be noted the Terrorism Insurance Act 2003 came into effect on 1 July 2003 and was introduced by the Federal Government to provide terrorism cover under eligible commercial insurance policies. Premiums on all eligible policies will rise to reflect the cost of the terrorism reinsurance cover provided by the Australian Reinsurance Pool Corporation (ARPC). The ARPC has taken a zone approach to the reinsurance premium to be applied, based on the postcode of the risk: a 2% reinsurance premium for non-urban areas, a 4% reinsurance premium for urban areas and a 12% reinsurance premium for Central Business Districts. . Premium increases will apply to eligible policies that begin on are due for renewal from 1 October 2003. These increases are subject to government taxes and charges (such as GST and stamp duty), and any applicable Fire Services Levy.

Impact of Government Taxes/Charges on Home Insurance Premiums - Metropolitan

	Basic Premium \$	Fire Levy \$	GST \$	Stamp Duty \$	Total Cost \$	Impact of Govt taxes %
NSW	100	15	11.50	11.38*	137.88	37.9
VIC*	100	15	11.50	12.65	139.15	39.1
QLD	100	-	10.00	8.25	118.25	18.2
WA	100	-	10.00	11.00	121.00	21.0
SA	100	-	10.00	12.10	122.10	22.1
TAS	100	-	10.00	8.80	118.80	18.8
ACT	100	-	10.00	11.00	121.00	21.0
NT	100	-	10.00	11.00	121.00	21.0

* In country Victoria the fire services levy is 19%, with the total cost of a \$100 premium \$143.99 as a result of Federal and State Government taxes/charges.

* Effective from 1 September 2005, stamp duty rate increases from 5% to 9% in NSW.

Source: Derived from Insurance Council of Australia data (2005).

Insurance Taxation - International Comparison

A study by the Centre for International Economics, *The General Insurance Sector: Big Benefits But Overburdened* (August 2005) indicates by international standards, taxes on general insurance in Australia are high. Indeed, "taxes on property insurance in most Australian states and territories are higher than in the majority of the comparator countries. International taxes as a proportion of premiums are as low as 2 per cent in Ireland and Singapore and 2.4 per cent in the USA (California)".

The Report noted, "Australian taxes on property insurance are particularly high compared with international competitors in the area of business insurance..." (page 24). The Report is available at:

[http://www.ica.com.au/general/issueslist.nsf/17e2e1f61d0819b9ca256e38001b8277/947bb702dddc7fdcca257059007e43fe/\\$FILE/Final%20report%20ICA_14.pdf](http://www.ica.com.au/general/issueslist.nsf/17e2e1f61d0819b9ca256e38001b8277/947bb702dddc7fdcca257059007e43fe/$FILE/Final%20report%20ICA_14.pdf)

Taxation Reform – A Case for Insurance Taxes Reform

When the Federal Government announced that it would fundamentally reform the Australian taxation system by introducing a Goods and Services Tax (GST) it also announced that the revenue would go to the States and Territories. The stated intention was that the GST, as a growth tax, would build revenue for State Governments and as a result an opportunity should be created to reduce certain State Government taxes.

IAG understands and acknowledges that each State Government will make the decisions it believes are in the best interests of the community and that are based on sound financial management principles. However, it is worth noting in this context that Access Economics' 2000 Review of the State taxes and charges on general insurance post GST (*The Overwhelming Case For Cutting State Taxes and Charges On General Insurance Post-GST, September 2000*) found a clear economic case for reducing State insurance taxes ahead of many other taxes, in particular payroll tax.

Using an economy wide approach, Access Economics took into account the interactions between consumers, producers and investors. They then used a highly sophisticated economic model called the computable General Equilibrium Model, which has been used to produce reports for Federal and State Governments. This model was used to estimate the economic impacts of reducing each State/Territory tax by \$100 million (in total, for all States/Territories). The result from this modelling provides a clear economic case for reducing State/Territory insurance taxes ahead of many other taxes.

Access Economics concluded that reducing stamp duties on insurance would result in gains to economic welfare, GDP and investment that are many times greater than the gains that would arise if payroll taxes were reduced by the same amount. Access Economics noted that in broad terms, the results indicate that taxes that fall on investment (such as stamp duties on non-residential conveyancing and insurance) lead to the greatest economic costs, and would therefore provide the greatest economic benefits if they were to be reduced.

Similarly, the Business Coalition for Tax Reform (2004) commissioned Access Economics report on the efficiency of State and Territory taxes (*Axing the Alcabala: A Program for a 21st Century State Tax System*) noted that for insurance taxes there is a strong efficiency case for further state tax reform.

The Access Economics report noted, "FSL and stamp duty on general insurance are inefficient enough in isolation. In combination – and even if the tax base for insurance was properly specified - the taxation of general insurance products subject to all three taxes is the most inefficient taxation treatment existing at the state level".

http://www.bctr.org/upload/AEconomics_State_Business_Tax_Reform_Nov_2004.pdf

Moreover, the New South Wales Treasury in its submission to the New South Wales Public Accounts Committee Inquiry into Fire Services Funding (2003) stated, "...It would be undesirable if consumers and businesses were choosing not to insure, or underinsuring, because of higher prices caused by taxes on insurance. Not only could this affect the persons or businesses concerned, but overall economic efficiency and growth would be affected by the changes resource allocation" (NSW Treasury submission, page 14).

[http://www.parliament.nsw.gov.au/prod/parliament/committee.nsf/0/e5fea4093a03babe-ca256dec001570b5/\\$FILE/Treasury%20submission.pdf](http://www.parliament.nsw.gov.au/prod/parliament/committee.nsf/0/e5fea4093a03babe-ca256dec001570b5/$FILE/Treasury%20submission.pdf)

The Treasury (2003) noted, "It seems reasonable to expect that high tax rates would contribute to non-insurance and under-insurance – price increases generally lead to a reduction in demand for goods and services." (NSW Treasury submission, page 14).

The Treasury (2003) also noted:

"The principle underpinning the Fire Services Levy is to ensure beneficiaries of the fire services contribute to funding the service. However, the presence of non-insurance and under-insurance indicates that a significant proportion of beneficiaries are either not contributing to funding the fire services or are under contributing.

As a means of matching contributions to fire risk, the levy performs poorly particularly for householders. Fire risk is only one element of insurance policies, and it is evident that there is not a strong correlation between fire risk and fire services levy contributions.

A weakness of the current arrangements is that the government is not able to ensure the extent of recovery from each type of insurance policy category is appropriate. However, even if this were addressed, the fact remains that insurance policies are much broader in scope than fire so that the premiums will substantially reflect risks other than fire risk.

It is also apparent that insurance is relatively highly taxed – with the fire services levy the highest impost. High tax levels are likely to discourage insurance and lead to under-insurance with adverse consequences for resource allocation and economic growth." (NSW Treasury submission, page 20).

The Sigma Plus Consulting's *Emergency Services Levy Insurance Compliance Review: Final Report* in relation to the effect of the phase-out of the Fire Services Levy (FSL) in Western Australia indicated the removal of FSL in Western Australia contributed to Western Australia having one of the most price competitive insurance markets in Australia in 2003 and consumers responded to cheaper insurance by increasing their insurance cover to more adequately protect themselves.

http://www.fesa.wa.gov.au/upload/1514878857/docs/insurance_Compliance_Rprt_April_2004.pdf

IAG notes the views of the Australian Consumers' Association's that the fire services levy is "an illogical rule that deters consumers from taking out home building insurance (due to higher price)" and this "should be replaced with a levy by all building owners rather than only those who prudently insure" (p.21, *ACA submission to Taskforce on Reducing the Regulatory Burden on Business, December 2005*).

Put at its simplest, the current fire services levy regime imposes a tax on people who protect their property, businesses and personal possessions by insuring them. It is their taxes that pay for the fire fighting and protection services provided to the entire community. A fairer and more rational system would see property owners pay for these services, spreading the burden equitably.

Insurance Protection Tax

The insurance industry recognises that the New South Wales Government wants it to contribute to the cost of assistance to HIH policyholders. The industry is concerned however, that forcing insurers to pay via a tax or levy is bad industry policy, because it sends a clear message to potential investors that they will be required to underwrite the poor performance of their competitors. The Insurance Protection Tax sends a clear message that if an insurer fails in New South Wales, irrespective of the cause, its competitors will help to foot the bill. Moreover, the tax penalises the "mum and dad" small investors who have chosen to invest in New South Wales based insurance companies.

If insurers cannot recover the tax they will be required to fund it by either reducing returns to investors and risking lower investments, or reducing surplus capital reserves.

IAG continues to be concerned in relation to a number of aspects of the tax. In particular we are concerned about: the lack of a sunset provision; the prohibition against recovery of the tax; and the lack of adequate controls to ensure that recoveries are appropriately brought to account. .

IAG believes the concept of taxing viable insurance businesses to cover the costs of the failure of a competitor is inconsistent with a market competing for the delivery of a product to consumers. IAG is not, and should not be, responsible for the financial promises of its competitors.

We also contend that, under a greatly more robust and rigorous prudential regulatory regime, such as that put in place since the HIH collapse, the Insurance Protection Tax is no longer necessary. At the very least, it should be subject to a sunset date.

- **Fair Trading Legislation**

IAG believes it is essential to ensure that the application of Australia's competition laws remain in step with the competitive pressures faced by the Australian economy and businesses.

The fundamental premise that underpins competition policy is that all sectors of the economy should be subject to competition unless it can be shown that there is a net public benefit not to do so. IAG continues to oppose any legislative or regulatory reform that results in legitimate competitive conduct between insurance companies and preferred suppliers being prohibited or stymied to protect some businesses from facing fair competition.

IAG cautions against legislative or regulatory intervention, no matter how apparently well intentioned, that has the potential to unduly inhibit market influences.

IAG agrees with the views of the ACCC Chairman:

"...businesses that are unable or unwilling to respond to the, often daunting, challenge of competition, will languish and may ultimately fail. But this is the essence of an open market economy." (Graeme Samuel, "Big Business v Small Business – vigorous or vicious competition? Australian Graduate School of Management Dinner, 4 November 2004).

Moreover:

"...businesses that are able and motivated to take advantage of the competitive environment through innovation, improved efficiencies, keen pricing, quality service standards and other forms of vigorous competition will thrive. And for the most part, small business is able to respond to the competitive environment more quickly and with more flexibility than many of its larger competitors. As stated previously, the corollary is that businesses that are unable or unwilling to respond to the challenge of competition will languish and may ultimately fail".

Importantly, the ACCC Chairman highlights:

"One of the difficulties is that there is not a wide understanding of the difference between protecting competitors and promotion of competition. And while small business will seek for the focus of competition policy to tend more towards a philosophy of the protection of competitors, ostensibly in the interests of the promotion of competition, the voice of the consumer will be constantly heard urging that the focus remain on the promotion of competition with its attendant consumer benefits." (p. 11)

Similarly, John Martin, ACCC Commissioner (2005) noted, "It is not the role of competition policy to favour one sector over another – competition policy is not about preserving competitors, it is about promoting competition." (*John Martin, ACCC, Trade Practices Issues for Small and Medium Enterprises, 18 November 2005, p.3*)

IAG acknowledges that contentious issues concerning the commercial relationships between insurers and smash repairers have been a recurring characteristic of the relationship between insurers and smash repairers. Insurers generally, and IAG in particular, have consistently argued that these issues are the result of a convergence of a variety of trends influencing both the operations of insurers and the changing nature of the smash repair industry. These influences include broad changes in the automotive market, changing consumer preferences and increasing consumer demands for quality repair work and structural changes in the Australian insurance industry.

IAG believes any additional legislative or regulatory intervention regarding the relationship between the smash repair industry and the insurance industry is unnecessary and inappropriate as the existing provisions deliver comprehensive protection to New South Wales consumers and provide smash repairers and insurers with a balanced operating environment. In particular, IAG is opposed to the introduction of anti-steering legislation in New South Wales in relation to the smash repair and insurance industries.

With respect to anti-steering legislation the Productivity Commission Inquiry Report (2005) noted:

“Some overseas jurisdictions enforce anti-steering requirements — indeed, some go further and prohibit PSR arrangements and even insurer ownership of repair shops. The Commission has found little analysis of the advantages and disadvantages of such measures as they operate in practice.

However, in the Commission’s view, forcing greater consumer choice on the insurance industry, in the Australian context, through the anti-steering measures requested by some repairer groups, or through other similar measures, would be a costly step. Apart from increasing costs for insurers and consumers, it would adversely affect the structure and operating economies of the repair sector itself — through greater repairer fragmentation, lower scale and reduced incentive for productivity improvement. It is highly likely, given the available choice already available in the Australian market for smash repair insurance, that the costs of such measures would significantly exceed any benefits”(Inquiry report, p.117).

The Australian Competition and Consumer Commission (ACCC) noted in relation to anti-steering legislation (2002 Roundtable Issues Paper):

“Some industry associations have called for state-based anti-steering legislation, similar to that overseas...The ACCC is not convinced that the prescriptive approach to mandatory legislation is required at this stage. The compliance costs associated with such a legislative change could be passed onto consumers, through higher insurance premiums” (p 24).

A US study by Klick (2004) *Performance Bond Pooling: An efficiency Argument for Insurance Steering*, indicates:

“Consumer protection advocates hold the practice of insurance steering in poor regard, and they have been successful in getting a number of states to pass regulations which effectively bar the practice. However, the practice may be an efficient way of committing repair shops to provide high quality service....”

*“If that is the case, regulations that prohibit steering actually reduce consumer welfare, by making quality assurance expensive or impossible. Given this possibility, policy makers need to examine the welfare effects of prohibiting steering.” (Jonathan Klick, (2004), Performance Bond Pooling: An efficiency Argument for Insurance Steering, p.8).
<http://www.isnie.org/ISNIE04/Papers/Klick%20Paper.pdf>*

IAG notes the statement of the New South Wales Fair Trading Minister:

“The NSW Government is exploring the viability and legality of anti-steering legislation however a recent Productivity Commission report identified the issue as being in the Commonwealth jurisdiction under the Trade Practices Act.” “...I believe that negotiation rather than legislation could achieve a better result in this dispute.” (Media Release, 5 September 2005).

It is of note that IAG is part of a Federal Government Taskforce working to develop a Code of Practice for the insurance and smash repair industries. The Federal Government established a Code Implementation Taskforce in November 2005 in response to the recommendations of the Productivity Commission. IAG believes the Taskforce is a transparent and cooperative means to achieving the best outcome for all parties.

Again, IAG cautions against legislative or regulatory intervention that has the potential to unduly inhibit market influences. A balanced and flexible approach to regulation that does not restrict sensible business practices is to be encouraged.

IAG believe the ICA views to the Australian Government’s Regulation Taskforce in relation to industry self regulation provides Governments with an alternative flexible approach to regulation. ICA note, industry self regulation “provides a benchmark standard. Once this standard is set, there is a strong incentive for individuals companies to exceed the benchmark in order to attract customers and expand market share”.

- **Workplace Surveillance Legislation**

The *Workplace Surveillance Act 2005* is an example of legislative inconsistency across State and Territory Governments that adds unnecessary costs and compliance burdens to national and international businesses. Some of the difficulties incurred are associated with the movement of information across State borders and internationally by employees of the one company.

IAG believe that there is a need to ensure that regulation does not impose unnecessary administrative, compliance and financial burdens on employers. This position is in keeping with Government policy to minimise compliance costs for business.

In relation to the *Workplace Surveillance Act 2005* there is a need for an appropriate balance between the legitimate needs of employers and the privacy rights of employees.

- **Privacy Act**

IAG note the Office of the Privacy Commissioner's submission to the Australian Government's Regulation Taskforce identifying the inconsistencies that have arisen between the *Privacy Act 1988* and State and Territory legislation, and the need "to clarify the relationship between state and federal activities and the way that different jurisdictions interact and function as a whole" (*Office of the Privacy Commissioner, Submission to Regulation Taskforce, November 2005, p.4*).

IAG also note the ICA's concern that:

"...insurers have witnessed a ballooning in privacy legislation, which has now developed into a "patchwork" of regulation in the States and Territories. In addition to the Office of the Federal Privacy Commissioner there are State Privacy Commissioners in multiple jurisdictions....The privacy "patchwork" adds to the regulatory burden. It requires legal advice to clarify the application of different legislation, staff time to respond to multiple regulators and to meet differing regulatory regimes" (ICA submission to the Australian Government Regulation Taskforce, November 2005, p.23).

IAG urges IPART to consider carefully the compliance costs to business of this inconsistent and fragmented regime.

- **Corporate Social Responsibility**

While there are no current formal proposals to require companies in Australia to report on their environmental and social performance, IAG does not believe that regulatory approaches will necessarily produce the desired outcomes for Governments and society.

The core of IAG's sustainability work is that we seek to deliver shareholder value by excellent management of our group of companies – for the long term. We consider sustainability to be central to the way in which our core business is delivered and that we can create enhanced long-term shareholder value by embracing opportunities and managing risks deriving from the full range of economic, environmental and social factors that interact with, and impact on, our business every day.

IAG maintains that the essence of success in achieving full integration of stakeholder considerations into business decision making lies in the understanding that there is no "one size fits all" approach.

IAG considers there is significant opportunity for activity across Government to be better coordinated. For example, the power of influence of Government agencies in implementing social and environmental considerations into procurement policy presents an opportunity for Government to lead.

In terms of providing an environment that encourages corporate responsibility by companies, actions that Government could undertake are broad ranging, including:

- Educating companies and the public about corporate responsibility issues
- Assistance for research and development of new tools to assist companies to embrace corporate responsibility initiatives; and
- Provision of incentives which encourage improved social and environmental performance.

IAG would be happy to discuss this submission and to assist in any way we can. If you wish to discuss this matter or make further inquiries please contact David Wellfare, Senior Adviser, Economics & Policy on (02) 9292 8593 or me on 9292 9744.

IAG supports a consultative approach to regulatory review and an approach that engages with industry at all stages of the review process. IAG commends the Government for its consultative approach to date and the opportunity to make a submission to the Review.

Yours sincerely

A handwritten signature in black ink, appearing to read 'B Carney', written in a cursive style.

Dr Barbara Carney
Group Head, Government Relations & Policy
Insurance Australia Group