

MIKE WILKINS PRESENTATION TO AMCHAM
“BUILDING A STRONGER AUSTRALIA”
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Good afternoon, and thank you to AmCham for inviting me here to speak today.

It is always a pleasure to be in Melbourne - great food and wine aside - our commercial business CGU has its head office here in the CBD and across the state we employ more than 3000 Victorians, so it is always a good opportunity to catch up with our people.

Today, I'm going to spend some time talking about that one weekend in September. No, not the one when Melbourne comes to a standstill to watch Sydney go back to back in the AFL, but the September weekend when the Prime Minister similarly looks for her second premiership.

As we are all aware, an election has been called for September this year. It has been dubbed a marathon campaign - and while most were surprised at the announcement of a date so far away - it does provide certainty, which can only be a good thing.

That very lack of certainty has been a significant impediment to Australian business during this hung Parliament.

Uncertainty is bad for business confidence. Businesses that are confident and have predictable operating environments make long term decisions and drive economic growth and employment. When businesses have to second guess that environment the reverse is true.

The recent events surrounding leadership of the government have been quite unbelievable. My hope is that after this implosion we will now see clear air and the start of a conversation about policy and the national interest.

But no matter the outcome in September, whether Sydney or Melbourne, Gillard, Abbott or Other, business will primarily be looking for certainty and confidence.

So today, I'm going to do three things:

- **First**, I'm going to look at how business and the community generally should view this federal election
- **Second**, I will discuss the top three things I believe should be a focus- **competitiveness, productivity** and **infrastructure** to build a strong Australia
- **And last**, I wouldn't be an insurance boss if I didn't outline the case for **mitigation against extreme weather events** to be front and centre of any election campaign. Mitigation and safer communities is not only an issue that impacts insurance companies and their customers, but is an issue that is fundamental to all Australians

ABOUT IAG

Before I get into that, let me quickly give you an overview of our company.

IAG has a portfolio of general insurance businesses with leading and established brands across our home markets of Australia and New Zealand, and a growing presence in Asia.

Here in Victoria, as I previously mentioned, you may know us as CGU but we also have a distribution agreement with RACV. We own other well known Australian brands including NRMA Insurance, SGIO, SGIC and Swann Insurance.

We underwrite around \$9 billion in insurance premiums each year and employ more than 13 000 people.

BUILDING A STRONGER AUSTRALIA

So first, how should we view the September election?

When the Prime Minister named the date for the federal election many bemoaned the length of time that our politicians would be on the campaign trail.

It was probably not a surprising response, but one that I would encourage us all to look at differently.

The public policy settings of any government drive and shape the Australia in which we all live. A strong political discourse is good and we all should have an active and interested involvement in the future direction of our country.

Politicians too have an obligation to provide a vision, facts and intellectual rigour. It is all too easy to have this discourse descend into something less attractive and it is my hope we see fewer personal attacks and more time devoted to a constructive political conversation and discussion on policy.

This election also takes place at a time business is still facing volatile economic conditions and a recovery that is far from assured. Well thought out policies that will drive Australian business, support our economy and improve productivity are more important than ever.

I encourage us all view this election through this prism.

INTERNATIONAL COMPETITIVENESS, PRODUCTIVITY & INFRASTRUCTURE

Second, what are the big ticket items all sides of politics can focus on in the interests of a stronger Australia? In my view they are **international competitiveness**, **productivity** and **infrastructure** - three themes that are inevitably linked.

They are also themes that will ring true for Australian business. Business works on them every day. How do we outperform our opposition in an ever competitive global marketplace? How do we raise the productivity of our own people and processes to help us to that? And what infrastructure do we need to invest in to bring it all together?

INTERNATIONAL COMPETITIVENESS

Let me start with international competitiveness.

Australian business is on the global playing field and needs the support of government to help compete in our high wage high skilled economy.

In its 2012-13 report, The World Economic Forum ranked Australia the 20th most competitive economy, defining competitiveness as the set of institutions, policies and factors that set a country's prosperity.

The fact is Australia is going backwards in this measure, having been ranked 16th a couple of years back. Some of the factors hindering our competitiveness are regulation, tax rates and labour law.

Practically, for an insurer like IAG, how do these obstacles translate and what do we want our politicians to do?

REGULATION

Businesses like IAG in the Australian financial services industry have long been concerned about duplicated, inconsistent and increasing regulation, particularly across state and territory government regulatory regimes. This often results in little more than unnecessary costs and compliance burdens.

Two examples are differing workers' compensation schemes and insurance taxes.

A well-designed and administered national system for workers' compensation would deliver fairer and more consistent support for injured workers by eliminating arbitrary differences in entitlements for the same injuries across state borders. Similarly, a consistent approach to the rate and application of stamp duty as it relates to insurance premiums would be fairer to all insurance customers.

I'm unsure how we expect to compete globally when we are busy competing against ourselves when trying to run a national operation?

On the international stage, a company like IAG feels it when Australian regulators fail to consider the worldwide liberalisation of trade and capital markets.

As an insurer operating in multiple jurisdictions it is increasingly important that regulators not hinder the relative ability of local insurers to achieve a commercial presence offshore. For instance, a competitive disadvantage is created when minimum capital requirements in Australia are significantly higher than those of our competitors.

This highlights a conflict by government in its pushing of Asia as an emerging economic powerhouse to which Australia's future is dependent, and regulators prejudicing our ability to operate offshore.

These are all opportunities that can be fixed with political will.

TAX AND LABOUR REGULATION

In relation to taxes Australia has one of the highest company tax rates in the world. International competitiveness is harmed by our company taxes being out of kilter with tax rates in countries that compete with Australian businesses.

The removal of inefficient state taxes and a reconfiguration of intergovernmental financial relations would be a significant step towards addressing our often piecemeal approach to taxation and increasing our competitiveness.

As for workplace relations, I note some announcements in recent times that have taken the business community by surprise, particularly around penalty rates and working visas. While always something of a contentious area of policy, IAG supports an industrial relations regime based on principles of fairness, flexibility and industrial democracy and encourages both sides to keep these broader principles as fundamental to their decision making.

But back to the bigger picture.

A competitive economy is good for all Australians and working to achieve that must be a priority.

I look forward to hearing from both sides of politics their plans for ensuring we work on what needs improving whilst exploiting all the advantages that we do have – whether they be strong and stable financial markets – high education and training – and an innate ability for innovation when allowed to prosper.

PRODUCTIVITY

Building a stronger Australia also needs us to tackle the productivity question.

Technically, productivity is the efficiency with which an economy transforms inputs - such as labour and capital - into outputs such as goods and services, but to me improved productivity simply means doing more with what you've got.

One of the obvious areas where we can do more with what we've got is making better use of labour, particularly older workers.

In Australia the number of older people aged between 65 and 84 is expected to more than double by 2050. In 2010 there were five people in the traditional working ages of 15 to 64 for every person over 65, in 2050 it is thought there will be around two and a half.

We are all living to an older age and are healthier but many are more financially stretched in retirement, so generally we want to work longer.

Unfortunately, there are a number of legislative and regulatory requirements that act as barriers to workforce participation by older workers, and we look to both sides of politics to address them.

Superannuation arrangements should not discourage people from remaining in or re-entering the workforce. Nor should they discourage employers from employing older workers.

Increasing complexity and continual change to superannuation regulations are a disincentive for prospective workers to engage with the workforce. Each time a change is made to superannuation regulations, older people have to factor in how it will impact their tax positions, pension entitlements and ongoing benefits.

Super has already been the subject of much policy too-ing and fro-ing this election and we add our voice to the numerous associations and businesses that say “leave super alone”.

I've already talked to a national workers' compensation scheme and this is another area where regulatory barriers act as a disincentive to productivity. The treatment of over 65 year olds under workers' compensation legislation varies considerably across Australia. Only Queensland and recently Western Australia have no restriction. Discrimination on the basis of age has no place in a modern system.

Improving workforce productivity means a focus on all potential employees. Another underutilised group are new parents. IAG tries to keep new parents and primary carers in the workforce by offering an industry leading 20 weeks parental leave at full pay which includes a welcome back payment that doubles pay for 6 weeks upon return to work.

We think it helps us retain our talent and gives people another reason to consider IAG as a potential employer. Having said that, IAG considers that parental leave is a shared responsibility between business and government and any additional payments for maternity leave prescribed by government should be funded from consolidated revenue.

INFRASTRUCTURE

All the good work on building a strong competitive economy and productive workforce is undone without the infrastructure to support it.

Having employees stuck in traffic, having extra expense trying to move goods, having public transport break down, are all the things that cost business and our economy every day.

While governments are getting better at looking beyond the electoral cycle in many instances the infrastructure vision doesn't make it past the glossy brochure or media launch.

I therefore welcome the establishment of Infrastructure Australia to guide governments in the planning, investing and building of infrastructure. I also welcome long term policy on infrastructure, which has a view to making it easier to do business in Australia.

I also note the recent launch of Infrastructure New South Wales 20 year state infrastructure strategy. Yes, this is a document that requires state as well as federal government support, but it is the kind of thinking and co-operation I believe we need from all our political leaders.

It recommends 70 projects at a cost of \$30 billion including building and extension of motorways, investment in passenger rail and substantial flood mitigation work.

While governments may balk at the cost, I think it is well acknowledged that there has been chronic under-spending on crucial infrastructure at state and federal levels for a number of years.

Victoria is responsible for around a quarter of Australia's economic activity with an economy bigger than that of Singapore, Hong Kong and New Zealand, yet the total work delivered by big contractors for government capital projects in the state has fallen by nearly \$1.5 billion, or 37 per cent, in the past two years.

I support calls for the state and federal governments to fast-track funding for the next round of big-ticket projects - including the East-West Tunnel and Melbourne Metro Rail tunnel.

To prosper in our increasingly connected and competitive global economy we require world class infrastructure and I think the time for a renewed interest in nation building is overdue.

The debate around a second Sydney airport has been awaiting a brave policy decision for as long as I can remember.

As a regular traveller who can spend more time circling Sydney airport than spent on the preceding flight time, I'm certain that this piece of infrastructure is even more necessary than is reported.

I wouldn't be the first to suggest that one way of raising funds for major infrastructure projects, while increasing competitiveness with the removal of inefficient state taxation, would be to raise the level of the GST.

The GST is the very definition of an efficient tax – it is user pays, it is fair and equitable and it is also transparent and easily understood. I note both parties have taken this off the table, possibly concerned about the electoral reaction to a conversation around increased taxation. This is a shame. I think the possibilities of an improved and more efficient system based on larger GST revenue are compelling.

RESILIENCE

Finally, as CEO of Australia and New Zealand's largest insurer, it should come as no surprise that I think creating safer and more resilient communities to natural disasters needs to be an absolute priority.

Yes, the insurance implications are clear but it is so much broader than that. The most important thing governments are charged with is keeping their citizens safe.

Money spent on mitigation helps ensure that communities have the best chance of getting through a natural disaster with as little disruption as possible and keeps individuals safe.

I applaud the government's recent announcement of additional funding for mitigation, most recently in February with an additional \$100 million over two years to address problem flood areas in Roma, Ipswich and Western Sydney.

But while government interest and activity in the area of disaster resilience has increased, the economic and political investment by all three levels of government remains well short of what is required to seriously tackle the issue.

Over the past five years natural disasters have caused billions of dollars of damage to private property and public infrastructure with the sad and inevitable loss of life.

And every Australian is impacted by these events. Whether it be through personal devastation in losing loved ones or property, whether it be through billions of their taxpayer dollars spent on recovery, or even the creation of special flood levies after the Queensland flooding, or through higher insurance premiums, we all pay the price when we fail to make where we live as safe as possible.

IAG strongly believes there is a need for greater emphasis by governments on community adaptation to extreme weather events, including stronger building codes to protect structures from natural perils, to more risk appropriate use of land.

In some communities, such as Gympie, residents have experienced their fifth flood in two years. To keep repeating the same mistake in terms of the rebuild is madness and investing in mitigation is only now happening to try and stop flood number six.

I'm pleased to say IAG is doing its bit.

We announced last December that we had formed *The Australian Business Roundtable for Disaster Resilience and Safer Communities* with Australian Red Cross, Investa, Munich Re, Optus and Westpac. The Roundtable will identify

opportunities where Governments can work with business, not-for-profit and community leaders in resilience building activities.

This is the first time that business has come together to identify the cost to communities in reconstruction, relief and recovery if an event occurs, versus the level of investment needed for priority mitigation projects.

Here in Victoria our focus is on the prevention and mitigation for bushfire and we are looking at the cost of building more resilient homes, vegetation management and reducing threats such as powerlines.

We will release the Roundtable findings in June, but in the interim we will continue to work with all sides of government to keep resilience on the national agenda.

CONCLUSION

So, in conclusion we are in for a marathon federal election campaign.

But both parties have an unprecedented opportunity to build their case and capture the imagination.

Just as for us in business, there are big ticket items of **competitiveness**, **productivity** and **infrastructure** are where I believe Government and Opposition have the greatest ability to state their case and make a difference.

I also reiterate my call for mitigation to form a serious part of both parties' policy platforms to protect Australians from harm.

Yes, it will be a long campaign.

But at the end of the day a stronger Australia is up for grabs and just like that other weekend in September that is sure worth playing for!