



**SENATOR THE HON NICK SHERRY**

**ASSISTANT TREASURER**

**ADDRESS TO**

**THE INSURANCE COUNCIL OF AUSTRALIA'S**

**2010 REGULATORY UPDATE**

**SYDNEY**

**17 FEBRUARY 2010**

## INTRODUCTION

Good morning. Let me start by thanking the President of the Insurance Council, Terry Towell, for his hospitality in inviting me to address your 2010 Regulatory Update.

I'd also to take this opportunity to acknowledge the work of your former CEO, Kerrie Kelly, and publicly wish her well in her new role in the United Kingdom.

I also acknowledge the presence here this morning of Luke Hartsuyker MP, the Federal Shadow Minister for Consumer Affairs, Financial Services, Superannuation and Corporate Law, who's just addressed this conference.

The Insurance Council of Australia has since its inception in 1973 as the industry's peak body played an invaluable role in the industry and our community.

Your ongoing professionalism, advocacy and support you bring to the table are always appreciated as is your commitment to promote the awareness of the role and benefits of insurance.

More importantly, it is the assistance you provide to the insurance industry to meet consumer and community needs in general, that I would like to recognise.

I know when my Ministerial colleague Chris Bowen and I discuss the terrain of the financial services, tax and general regulatory environment, the views of the ICA are important to us.

One fine example of the good work of the ICA comes immediately to mind – and that is the assistance you provided in response to the tragedy of the Victorian bushfires.

The Australian community marked the anniversary of the disaster only ten days ago.

The insurance industry, led by the Insurance Council, played an important role in facing the challenges of this disaster, hand in hand with the community.

In my view, the industry responded with compassion, practical help and a lot of hard work.

Insurers established call centres to assist policy holders to process their claims quickly and insurance assessors were on the ground in quick time.

The Insurance Council established an Insurance Taskforce and worked closely with the Victorian Government, as well as the Master Builders' Association, to help start the re-building process as soon as possible.

This work continues, of course, with the ongoing rebuilding process and with every fire season.

Thank you for these efforts, as I turn now to the theme of this regulatory update conference.

As we get stuck into 2010, I would like to make some comments about economic management, about the great challenges we overcame in 2009 and the ones we are now facing.

I will discuss the Government's strategy to deal with future economic challenges and outline the Rudd Government's economic priorities. In particular, I would like to address the long-term issues raised by the 2010 Intergenerational Report and the important work underway in tax and regulatory reform as part of this Government's commitment to a prosperous, open and vibrant economy.

### **Current Economic Conditions**

Before looking at the future, I would like to make a few observations about Australia's remarkable economic performance in 2009, following the synchronised and global financial meltdown.

As we know, the maelstrom of 2008 degenerated into the worst global recession in 75 years – but the Rudd Government responded with decisive policies to stimulate and support the economy and protect jobs, while the RBA complemented these policies with a significant loosening of monetary conditions.

More than a year on now, we can look back and gauge the performance of the economy over that period. The comparison with other developed countries is indeed remarkable.

Australia was one of only three of the 33 economies defined by the IMF as advanced, to avoid recession during the global financial

crisis. While full-year growth data for 2009 is not yet available for many economies, including Australia, it appears Australia will be the best performing advanced economy for 2009 – a result the Australian people should be very proud of.

The IMF recently estimated that the Australian economy grew by just under 1 per cent in 2009 - this compares to a contraction of 3.2 per cent for the advanced economies collectively.

Around the world, developed economies have withered during the recession. Major economies are yet to make up the losses experienced during the crisis. Compared to the 2008 September quarter, when the global financial crisis was at its height, the US economy is now 1.3 per cent smaller, the euro zone economy has shrunk by 4 per cent, while the UK and Japan are around 5 per cent smaller. In contrast, Australia's economy actually expanded over the same period.

Australia, with 5.3 per cent unemployment, has the second lowest jobless rate, behind Japan, of the major advanced economies. Since September 2008, while all of the major advanced economies have recorded job losses, Australia has managed to create over 165,000 jobs.

Our fiscal position also sits in stark contrast to other countries. OECD projections show Australia will retain one of the lowest government net debt positions.

It is clear that without a decisive policy response Australia's experience during the crisis would have been very different. The Government's stimulus measures were carefully targeted to ensure their effectiveness in boosting demand, which in turn supported jobs and economic activity.

I want to emphasise the importance of putting in place the stimulus when we did. Timing was everything. Three months later and the horse would have bolted, along with business and consumer confidence, creating the type of downward spiral we have seen, and continue to see, in other countries.

Timely, targeted and temporary were the three fundamentals and I am certain we delivered the appropriate package on all fronts.

While Australia has not emerged from the crisis unscathed, international economic comparisons provide a reminder of the central importance of sound, responsible economic management.

Of course, governments do not exclusively focus their policies on negotiating short-term problems. And in responding to the global financial crisis the Government has also taken comprehensive action to address, and lay the basis for addressing, Australia's longer-term social and economic needs through infrastructure and nation building projects.

## **2010 Intergenerational Report**

A detailed consideration of the long-term issues facing Australia can be found in the Government's 2010 Intergenerational Report, released by the Treasurer earlier this month. I would now like to comment on some of the messages in the report.

The report lays out a complex mix of challenges to our living standards and government finances over the next 40 years. These include an ageing population, escalating pressures in the health system and climate change.

While these challenges are substantial, they are not insurmountable – if we continue to put in place the right mix of policies to respond to these challenges now.

By undertaking relatively small adjustments now, we can avoid the need for more severe adjustments in the future. These adjustments will need to be directed at a broad range of policy areas that include:

- planning for future demographic change and addressing climate change;
- growing the economy through higher participation and productivity; and
- restraining unsustainable growth in spending.

The Intergenerational Report concludes that an ageing population continues to pose a challenge to future living standards and the sustainability of government finances.

For example, by 2050 there will be only 2.7 people of working age to every Australian aged 65 and over, compared to 5 people now.

Put differently, the number of people aged 65 and over is still projected to more than double over the next 40 years.

However, while the population is projected to age over the next 40 years, it is also expected to continue to grow, albeit at a slower rate than the previous 40 years.

Even with slower population growth, the population is projected to be around 36 million in 2050.

To some extent, sustainable population growth would help us to manage the challenges of an ageing population by providing the people who have the skills and innovation needed for continued economic growth.

On the other hand, a larger population will present challenges in areas such as infrastructure, service delivery and the environment. This will require continued investment and planning ahead of time to ensure that the benefits of sustainable population growth can be fully harnessed.

The Intergenerational Report projects that the ageing of the population will result in slower growth in living standards, with real GDP per person expected to grow at 1.5 per cent per annum over the next 40 years, compared with 1.9 per cent over the past 40 years.

At the same time, without action to address current fiscal policy settings, ageing pressures could damage our fiscal sustainability in the long run.

Based on current projections, ageing and health pressures would result in an increase in total government spending from 22.4 per cent of GDP in 2015-16 to around 27 per cent by 2050.

Rising health costs are by far the biggest contributor to fiscal pressures, accounting for more than two-thirds of this projected increase in spending.

And it is for this reason that we have sought to take action – in your field, the insurance field – to ensure a sustainable footing is put in place for private health insurance. As such, the Government is seeking a highly-targeted and responsible means test to be implemented with regard to the private health insurance rebate.

### **Economic priorities**

The Government recognises the response to these intergenerational, long-horizon challenges requires a multi-faceted approach. To address the challenges presented by an ageing population the Government has identified a number of policy priorities. These, as they've been recently outlined by both the Prime Minister and Treasurer, are:

- lifting productivity to grow the economy;

- addressing the direct impact of an ageing and growing population;
- managing the budget in the face of demographic change;
- underpinning investments in our future, with a sound response to climate change; and
- promoting social inclusion.

By growing the economy we can increase our ability to meet the fiscal pressures of an ageing population, without increasing the tax burden on working Australians. Growing the economy can be achieved by focusing our efforts on raising average productivity growth over the next 40 years and by removing barriers to workforce participation.

The Government has already started laying the foundations for productivity growth, including through investing in skills and nation building infrastructure, the Education Revolution and regulatory and tax reform.

In the area of workforce participation, the Treasurer announced, in conjunction with the release of the Intergenerational Report, a \$43 million package of practical measures to support mature age participation.

This package demonstrates the Government's strong commitment to removing obstacles to older Australians remaining in the workforce, should they want to.

The Government has also taken direct steps to address some of the fiscal challenges presented by an ageing population and the locking-in of permanent spending over the past decade.

We have introduced a number of changes aimed at improving the sustainability of the age pension. We have raised the pension access age to an appropriately higher level - a tough but responsible decision - reformed certain family payments and, as mentioned, introduced legislation to means test the private health insurance rebate.

Implementation of the Government's fiscal strategy will deliver permanent savings of around one percentage point of GDP from 2015-16 onwards. This is a substantial first step in addressing long-term spending pressures.

Without the fiscal strategy, spending would exceed revenue by around 3¾ per cent of GDP in 2049-50 and the budget would be in deficit by around 7¼ per cent of GDP.

The impact of these permanent savings demonstrates how adjustments now can have a substantial and enduring impact on future fiscal outcomes. This is why the Government is so committed to delivering on the fiscal strategy and ensuring a sustainable path for government finances.

## **Australian Financial Centre Forum and Independent Tax Review**

Two other processes the Government has established to help develop policy to address longer-term issues are the *Australian Financial Centre Forum* and the Independent Tax Review.

I would like to finish up today by making some comments about these two important initiatives.

In September 2008, the Government established the *Australian Financial Centre Forum*. The Forum was given a mandate to examine policy settings and identify strategies to position Australia as a leading financial services centre in the Asia-Pacific region. I note that the Insurance Council of Australia was a member of the Forum's reference group.

Recently my colleague, the Minister for Financial Services, Superannuation and Corporate Law, Chris Bowen, and I released the Forum's report entitled *Australia as a Financial Centre: Building on our Strengths*.

The report concludes that Australia has arguably the most efficient and competitive financial sector in the Asia-Pacific region, but that there are opportunities to expand our exports and imports of financial services to make the Australian sector truly international.

The report makes 19 wide-ranging recommendations. Many of these fall within my own portfolio responsibilities in the tax area and include:

- the creation of an investment manager exemption;
- the establishment of an 'Asian Funds Passport' for fund managers, similar to the UCITS regime in Europe;
- the enhancement of the offshore banking unit system;
- the abolition of interest withholding tax; and
- examining tax issues associated with facilitating Islamic finance opportunities.

On insurance, the report notes the Australian insurance industry is strong, efficient, innovative and well managed.

The report concludes that the insurance industry's primary concerns are taxation and different state-based regulation.

The report recommends that all state-based taxes and levies on insurance products be removed and that state regulation of insurance be standardised, wherever possible.

One further area I would also raise – especially in light of the report's treatment of the issues of Islamic finance – is the issue of Islamic insurance – or Takaful.

Islamic insurance has a 1400-year heritage based on mutual insurance or a "cooperative" approach to insurance provision.

This is an ever-expanding field and I would certainly like to see a discussion, a dialogue, commenced here in Australia about how we can play a role.

It is likely that reforms to state taxes and regulation will require cooperation and coordination between the Australian Government and the States and Territories.

The Government will give careful consideration to each recommendation.

Any recommendations in the Forum's report that overlap with matters within the scope of the independent tax review will be responded to in conjunction with the response to the independent tax review.

The Government intends to respond to the remaining recommendations as soon as it has had time to give them proper consideration.

As you know, the Government is currently considering the recommendations in the independent tax review and developing an initial response.

This review is a critical component of the Government's strategy to address long-term issues because Australia's productivity and competitiveness is underpinned by our tax system. In order to face up to the challenges that lie ahead, not least our ageing population,

we will need to look seriously at modernising our current tax system.

And, tax reform is inextricably linked to improving productivity and participation.

But, as I've said before, I won't be commenting just yet on the recommendations of the Independent Review of Taxation, or on any of the speculation that has been circulating in the media and elsewhere.

## **Conclusion**

To sum up today, my remarks have all centred on the importance of sound economic management.

I have emphasised the big picture perspective that the Rudd Government uses for all of our major policy challenges.

There was a wide-ranging policy response to the global financial crisis, and it was crucial in guiding Australia through the storm.

The issues identified in the Intergenerational Report will also require a wide-ranging policy response.

The Government has policy responses in place and is engaging with all sections of Australian society to generate further policy initiatives.

The insurance industry is synonymous with the management of risk and the Australian Government is the only institution capable of

pooling or absorbing the larger macro-risks that Australia needs to manage as a country.

I am certainly grateful to have had the chance to address an audience that shares this way of viewing the world.

Thank you.