ZURICH FINANCIAL SERVICES AUSTRALIA LIMITED

SUBMISSION ON REDUCING THE REGULATORY BURDEN ON BUSINESS

8 December 2005

2. Regulator dealings, resources and competencies

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3. Legislative complexity and currency

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APPENDIX SECTION 1: ISSUES RELATING TO DUAL OR MULTIPLE REGULATORS AND REGULATORY REGIMES

AREA	BURDEN/IMPACT	SUGGESTED CHANGES TO ADDRESS ISSUE
Accounting standards	Differing accounting standards required by the Corporations Act and APRA result in substantial reworking of accounts and duplication of reporting.	• Medium term project to adopt harmonised reporting requirements, with the ability to provide additional information for specific areas if necessary • Objective is to have one set of accounts/one accounting approach (with the ability to supplement information), as opposed to two completely differing approaches to the financial reporting of the group based on two separate reporting regimes
Licensing and reporting	Different licensing regimes and reporting requirements create duplicate compliance environments and compliance costs. Particular examples of areas where duplicate regimes impose different requirements and compliance burdens are breach reporting and 'responsible officer'/fit and proper person requirements. Another example is the recent requests from the ACCC and APRA for information in relation to public liability premiums. Largely similar information is being requested by two different regulators for two different purposes, yet the impact on business could have been substantially reduced if, instead, a joint request on common terms had issued by the two regulators concerned.	• Zurich sees no reason in principle why a single base set of licensing requirements could not be established, with variations/additional elements for specific product areas (life, super, managed investments etc) • A single set of breach reporting obligations that satisfy the obligation to report to all affected regulators. One set of rules about timing, details and materiality of what needs to be reported. • A single set of base requirements for who is suitable to hold office/positions of responsibility, with additional requirements applicable for particular positions if necessary. • More dialogue between regulators when requesting 'ad hoc' information, in order to be able to give business joint requests satisfying the needs of both regulators at the same time.
Multiple State regulatory environments	There are three principal areas in which Zurich and other industry participants are required to comply with completely different legislative and reporting requirements depending on which Australian jurisdiction is involved. These are: • stamp duty and fire brigade levies • workers compensation • compulsory third party insurance	• As the implementation of the GST has demonstrated, it is possible to achieve abolition of state taxes/regulatory regimes through approaches that involve legislative co-operation between the federal government and the States. • A national legislative, regulatory and reporting regime for any of the three areas would deliver enormous efficiencies to business

APPENDIX SECTION 2: ISSUES RELATING TO DEALING WITH REGULATORS

AREA	BURDEN/IMPACT	SUGGESTED CHANGES TO ADDRESS ISSUE

Inconsistency in dealings with regulators	It is not uncommon for Zurich to receive conflicting information from the same regulator. This is inefficient, undermines trust and generally hampers the quality of the relationship.
	
	Recent examples include:
	• APRA insisting on a particular valuation approach to a Zurich subsidiary with which Zurich did not agree. When the person involved changed, APRA agreed that the prior position was not appropriate, and agreed with Zurich's interpretation.
	• APRA being asked by two different senior Zurich executives on the same day what the position was in relation to approval of a particular new appointment. One executive was advised that the matter was 'in progress', the other was advised that there was a problem with the appointment.
		• Regulators to ensure that they have internal processes to ensure that industry participants:
		  o are not given inconsistent information
		  o are always given the most useful response possible, rather than general and unhelpful information that does not assist in issues being promptly addressed
		  o have known escalation points if issues are not being satisfactorily addressed (eg. the valuation issue)
		
		• It is critical that adequate regulatory supervision occurs in the decision making of lower level managers/officers, especially where those persons have limited industry/product knowledge or experience

Lack of timeliness and accountability in dealings with industry	It can be extremely difficult to obtain meaningful information from regulators as to the current status, likely decision timing or process that will be followed in considering or dealing with issues. From a 'cultural' perspective, regulators tend to provide very little information on how a matter is progressing. Recent examples include: • 3 month period taken to approve a new approved actuary, with no information provided about status during the whole period from the time the application was lodged • Zurich has not yet received any acknowledgement of or response in relation to its report dated 25 November 2005 on Enforceable Undertaking implementation • Significant practical difficulties in organising routine regulatory visit, with little notice provided, agenda given only the week before, and an expectation that a large volume of diverse documents could be provided on a 'next day' basis	• In terms of building effective working relationships with industry, there is considerable scope for improved communication that would assist both regulators and industry participants. • The initiative here needs to come from the regulatory bodies industry participants can seek it but it is only within the power of regulatory bodies to actually make it happen. • In this regard, Zurich strongly endorses all of the comments and suggested ways for improving communication set out in Issue 6 points 6.2 to 6.4 of the submission to the Taskforce made by QBE Insurance Group dated 24 November 2005. • This would also appear to be a resources issue, which ultimately is an issue of federal funding of the regulators concerned

Delays in addressing regulatory issues	There are occasions where delays in addressing regulatory issues cause the industry considerable expense and create unrealistic expectations of compliance with the issues involved. Recent examples include: • APRA's response to the rules relating to international accounting (IFRS) issued in late November. Although the content of the IFRS provisions had been known for a considerable period, industry has been left with one month to consider APRA's interpretation and implement all relevant changes necessary to comply by 1 January 2006 • The Insurance Contracts Act example listed in point 8 of the IFSA submission to the Taskforce.	• Where major changes to business practice are required, regulators ought to provide their relevant practice notes, policy statements with ample lead time from implementation date in order to provide industry with sufficient and realistic timeframes to consider and effect the relevant changes • Where regulatory review is undertaken, it ought to be carried through to completion within a timely period, in order to avoid confusion and deliver the benefits of updated legislation.
Need for making it easier to 'do business' with regulators	Technological innovation assists greatly when used appropriately, but automated responses can be highly frustrating if applied indiscriminately. Relevant examples include: • For general insurance quarterly returns, numbers need to be manually retyped into the relevant forms; they cannot be uploaded • Validation checks are only done once the information has been submitted, and seem to be generated on an automated basis without any regard for materiality or prior information submitted (eg. Zurich has a small but lumpy aviation insurance portfolio that experience significant claims variations; despite this being the case for many years, Zurich is regularly asked to explain quarterly variations in reporting)	• Technology should be used as an aid to regulator/industry dealings. All possible opportunities to improve the manner in which technology impacts the industry ought to be pursed. Often minor changes in technology can deliver major changes in efficiency (eg. quarterly reporting numbers example).
Need for staff with suitable industry experience	There is significant variation in the experience and competence of regulatory staff. Lack of relevant industry experience and product knowledge causes delays and is costly for business in 'educating' regulator staff. Relevant examples include: • Dealing with a staff member at ASIC with little understanding of annuity products resulted in Zurich being required to issue a disclosure not seen in any other market participants PDS, or a stop order would be applied. • Zurich has had to explain its risk management framework to three separate managers over the last three years, due to staff changes at APRA	• There is a need to suitable funds to be allocated to enable recruitment of staff with suitable industry training and experience. • It is critical that adequate regulatory supervision occurs in the decision making of lower level managers/officers, especially where those persons have limited industry/product knowledge or experience • Whilst the inevitability of a certain level of staff turnover is recognised, it is highly desirable for stability in business contacts between regulators and industry participants to be preserved wherever possible

APPENDIX SECTION 3: LEGISLATIVE COMPLEXITY AND CURRENCY

AREA	BURDEN/IMPACT	SUGGESTED CHANGES TO ADDRESS ISSUE
Legislation too complex or uncertain	Where legislation is overly complex or uncertain, it results in significant compliance costs, business uncertainty, board and management focus on risk-avoidance and raises the likelihood of breaches occurring. In addition to the examples given by the IFSA submission, other examples include • income tax legislation (which we acknowledge to be a project on its own) • GST claims payments and claims recoveries position (incredible complexity in order for general insurance companies to be able to recover ITC's) • lack of clarity as to what is 'general advice' (eg. if factual advice is given that outlines features of a product perceived as being 'good', does this represent the giving of advice?) • lack of clarity as to when it is necessary to register in Australia as an insurer; currently foreign insurers are left uncertain as to whether their activities are such as to require registration or not • significant uncertainty over the application of fee disclosure requirements to the general insurance industry in product disclosure documents	• rationalise and simplify legislation wherever possible • consult with industry before changes to legislation made • ensure amending legislation is not done on a piecemeal basis; fewer but more major changes are better than multiple minor changes on an ongoing basis
Consider commercial impact of legislative or regulatory requirement compared to regulatory benefit	Some regulatory requirements appear overly complex and demanding on business compared to the regulatory and consumer benefits that they deliver. Relevant examples include: • ASIC 'in use' notices; these are significantly time consuming to prepare (the notices now require provision of substantial amounts of information), not to mention lodgement costs and late fees. Zurich questions the value of such notices, given the various other legislative requirements that govern the documents to which they relate. • Substantial shareholding notice requirements are incredibly complex, given the interrelation of 'relevant interest', 'entitlement', 'associate' and the operative clauses that link them together. The 2 day compliance timeframe is also very onerous. • APRA conglomerate proposals may force companies to restructure due to treatment of capital in subsidiaries, with little apparent regulatory benefit	• Zurich recommends the abolition of these notices. • Zurich would welcome simplification of this reporting regime. • Consult with industry before issuing such proposals.