

1 December 2017

Ms Shellie Davis
Senior Adviser
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: sandbox@treasury.gov.au

Dear Ms Davis

**EXPOSURE DRAFT: CORPORATIONS REGULATIONS 2017
(FINTECH SANDBOX AUSTRALIAN FINANCIAL SERVICES LICENCE EXEMPTION)**

The Insurance Council of Australia¹ (the Insurance Council) appreciates the opportunity to provide feedback on the Treasury's consultation on the exposure draft of the *Corporations (FinTech Sandbox Australian Financial Services Licence Exemption) Regulations 2017* (the Draft Regulations) to facilitate an enhanced regulatory sandbox to test innovative financial services. The Insurance Council supports the proposed extension of the scope of the ASIC sandbox², in terms of eligibility, products and timeframe for testing general insurance products.

As we understand how the Draft Regulations will work, they will enable existing Australian Financial Services (AFS) licensees to test financial services they are not already authorised to provide, or have not previously tested. The Insurance Council is strongly supportive of this extension of the current ASIC sandbox which can only be accessed by unlicensed entities.

The objective of any regulatory sandbox, to support the design and delivery of new financial services that will benefit consumers, cannot be fully achieved without participation of both start-up businesses and existing licensees. Innovation is not just driven by start-up businesses, but also existing market participants, and also partnerships between start-ups and existing businesses. Members have advised that the current eligibility restrictions have

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. June 2017 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$45 billion per annum and has total assets of \$124.9 billion. The industry employs approximately 60,000 people and on average pays out about \$135 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

² ASIC relief is provided under ASIC Corporations (Concept Validation Licensing Exemption) Instrument 2016/1175.

constrained potential partnerships with start-up businesses because a relationship with an established insurer would prevent them from accessing the sandbox.

The consumer experience when purchasing general insurance products is being transformed; with growing consumer empowerment enabled by widespread use of the internet, interactive digital mobile technology, and social networks. These tools are revolutionising the way consumers are informed of events (about the impact of real time emergencies), wield purchasing power (as buying groups), and influence policy outcomes (with lobbying campaigns).

While these technological advances provide great potential for the industry to better meet consumer needs, this potential remains largely untapped. Innovation in the general insurance industry could help address some of the longstanding regulatory issues affecting the industry. A prime example is the limitations in the disclosure and financial advice regime which presently hinder effective consumer engagement.

The Insurance Council has undertaken a wide-ranging project to improve the effectiveness of disclosure in the general insurance industry, and coupled with digital innovation, we see significant scope to deliver general insurance products in more engaging ways. Access to the sandbox could enable insurers to test the provision of targeted information that they may currently be restricted from providing, for example, because they are only licensed to provide general advice.

Sections 11(7) and 12(1) of the Draft Regulations provides that users of the sandbox are limited to testing products and services on no more than 100 retail clients with a total client exposure of \$5 million. Given the mass marketed nature of many types of insurance, this limit on the number of clients is a problem for general insurers wishing to test a significantly larger client base in order to determine whether a new service is indeed business and market viable. We also note that the sandbox is limited to the testing of the provision of financial services, including the provision of financial advice and the distribution of products, and not the issuance of a new class of financial products.

We acknowledge that these conditions have been imposed to ensure that the testing environment is accompanied by sufficient consumer protections. Where a participant in the sandbox could demonstrate that consumer protections are strong, there may be benefit in allowing some flexibility, at ASIC's discretion, to adjust these limits on a case-by-case basis.

If you have any questions or comments in relation to our submission, please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate, on (02) 9253 5121 or janning@insurancecouncil.com.au.

Yours sincerely



Robert Whelan
Executive Director & CEO