



24 December 2019

Senator Andrew Bragg
Chair
Senate Select Committee on Financial Technology and Regulatory Technology
PO Box 6100
Parliament House
Canberra ACT 2600

Submitted by email: fintech.sen@aph.gov.au

Dear Senator Bragg,

IAG Submission to Senate Select Committee on Financial Technology and Regulatory Technology

Insurance Australia Group Limited (**IAG**) welcomes the opportunity to make a submission to the Senate Select Committee on Financial Technology and Regulatory Technology.

IAG is the parent company of a general insurance group with controlled operations in Australia and New Zealand. Our businesses underwrite almost \$12 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC and WFI (in Australia); and NZI, State, AMI and Lumley Insurance (in New Zealand).

A significant aspect of IAG's operations include investing in the future to prepare our customers and communities for the cutting-edge technology that will change the way we work, live and play. We are committed to developing insurance products and related services that will help our customers maximise their time, value and productivity while also making their world a safer place.

This submission draws upon IAG's experience in the innovation space to address four themes of national competitiveness raised in the Issues Paper – taxation, skills and talent, culture and regulation. The submission outlines IAG's innovation initiatives before addressing issues relevant to each theme.

IAG's recommendations to the Committee include:

- a) Extending the Research & Development Tax Incentive to software developments;
- b) Adopting a Canadian-style immigration strategy that lets companies play a role in vetting and approving immigration applications;
- c) Start-ups should seek to explore synergies with big companies rather than just a capital investment;
- d) Looking at Singapore's start-up friendly tax and grant policies;
- e) Simplifying product disclosure regulation to allow for simplification of the insurance purchasing process;



- f) Granting increased access to government natural perils data and building code information;
- g) Creating an additional category under the ASIC Regulatory Sandbox Regime for start-up partner organisations to apply for regulatory relief;
- h) Clarifying the application of APRA Consolidated Prudential Standards and other insurance regulations to non-insurance business functions;
- i) Caution around the extension and application of the Consumer Data Right and the usage of this data; and
- j) Adoption of the Nasdaq approach to sales of founder-held stock.

If you have any questions or require any further information please do not hesitate to contact Dimitry Palmer, Government Relations Consultant by email at dimitry.palmer@iag.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Orchard', with a horizontal line underneath the signature.

James Orchard
Executive General Manager Innovation, IAG



INTRODUCTION

IAG is pleased to provide this submission to the Senate Select Committee on Financial Technology and Regulatory Technology.

IAG believes that there is scope for the government to remove barriers and pursue reform to allow for the further growth of the X-Tech and innovation space, particularly concerning the insurance industry. IAG also acknowledges the responsibility large corporations have in fostering and encouraging innovation.

IAG's innovation approach seeks to make strategic investments that will enhance our product offerings to customers through new and innovative approaches to insurance.

IAG pursues innovation through the following five arms: Firemark Labs Australia, Firemark Labs Singapore, Firemark Ventures, Ambiata and The Gradient Institute.

1.) Firemark Labs Australia is an incubator based in Sydney that provides founders and start-ups with a unique environment to foster opportunities to explore new products, services and business models. Products in the Firemark Labs Australia portfolio include:

- [Safer Journeys](#) – a driver-safety service that helps users after a collision through a compact tag attached to a windscreen and a smartphone app. In the event of a collision, the tag detects it, the Safer Journeys team will then deploy an appropriate response and the accompanying smartphone app allows customers to capture relevant information for an insurance claim.
- [ShareCover](#) – daily flexible insurance product for the sharing economy (rideshare and short-stay accommodation). An online product that allows insurance cover to be turned on and off as required.
- **Mobility as a Service (MaaS)** – a 'Netflix of Transport' service that combines all possible travel options into a single app with personalised recommendations on the quickest, cheapest or greenest way to get from point A to point B. MaaS is currently being run as a trial for IAG Sydney staff in partnership with the University of Sydney.

2.) Firemark Labs Singapore is a Singapore-based incubator that works with business and partners to incubate and commercialise ideas made possible by emerging technology and new sources of data. Labs Singapore can take advantage of the vibrant start-up and innovation culture within Singapore.

3.) Firemark Ventures is IAG's \$75 million venture fund that seeks to partner with businesses that can disrupt insurance through improving customer understanding, develop new methods of generating value and technological innovation such as artificial intelligence. Investments made by Firemark Ventures include companies like:

- [Airtasker](#) – an online and mobile marketplace enabling users to outsource everyday tasks;
- [Pocketbook](#) – a budget planning app for personal finances that helps customers track, budget and save simply;
- [Hyper Anna](#) – an AI and data analytics product that helps businesses gain business insights from their data using natural language;

- [UpGuard](#) – software that reduces cyber risk, prevents breaches and protects customer data for hundreds of customers all over the world through continuous assessment;
 - [Life360](#) – a location-based family networking app that allows family and friends to share their location with each other;
 - [PropertySafe](#) – a property risk inspection and assessment service to maximise safety;
 - [ActivePipe](#) – an email marketing solution for real estate that provides the customer insights that agents, realtors and brokers are looking for to maximise lead conversion and reach;
 - [Quantiful](#) – AI and machine learning technology that measures consumer demand in real-time.
- 4.) [Ambiata](#) is a boutique provider of data science, artificial intelligence and machine learning solutions to the business to consumer sector in Australia & New Zealand. Ambiata grew out of a research group within the CSIRO. IAG acquired Ambiata in 2014 to serve as an analytics subsidiary.
- 5.) [The Gradient Institute](#) is an independent not-for-profit organisation that seeks to research the ethics of artificial intelligence and develop ethical AI-based systems that will provide better outcomes for individuals and society. The Institute was co-founded by IAG, CSIRO's Data61 and The University of Sydney. Its work focuses on research, practice, policy advocacy, public awareness and training people in the ethical development and use of artificial intelligence. Research findings will be used to create open-source ethical artificial intelligence tools that can be adopted and adapted by business and government.

Through these five arms, IAG has developed its insights into the X-Tech and innovation space.

TAXATION

The Research & Development Tax Incentive (**R&DTI**) is a crucial component in the success of the X-Tech and start-up industry. R&DTI plays a critical role in incentivising organisations to invest in research & development. In other international jurisdictions such as Singapore, it has been used by governments as an effective lever to simulate and incentivise investment.

Despite recent reforms to the R&DTI, the exclusion of software developments from the scheme looms as a significant threat to the future viability of the start-up industry in Australia. Software start-ups play a vital role in the Australian innovation sector and for X-techs. IAG suggests that the Committee consider changes to the R&DTI to make software development eligible for relief.

Because of this exclusion, several start-ups have had to repay claims under the scheme, stifling innovation. For example, one of IAG's venture partners, Airtasker, was affected by the R&DTI eligibility crackdown and was forced to repay millions of dollars as well as a 75% penalty for erroneous claims¹.

This repayment was triggered by a change in the R&DTI guidelines in 2017 which determined that software developments were not eligible for the R&DTI. This is despite the original Airtasker claims being made prior to this 2017 guideline change. Several other X-Tech and start-ups have and will be adversely affected by the exclusion of software from the R&DTI.

Failure to allow software start-ups to claim the R&DTI may lead to start-ups leaving the Australian market for other jurisdictions. This would impact the Australian innovation sector through a loss of talent, know-how and availability of resources

IAG recommends the Committee consider extending the R&DTI to make software development eligible for relief. Alternatively, the government could consider the introduction of an alternative tax benefit that allows for software-based start-ups to claim some benefit.

SKILLS AND TALENT

IAG has found there is a shortage of qualified and experienced data analysts, data governance specialists and data security and risk specialists in the domestic talent pool. Reforms to facilitate streamlined and more flexible immigration practices in the innovation and start-up sector are necessary to bridge this skill and talent gap. These reforms should seek to give companies an opportunity to input into the immigration process.

One example of a successful reform that Australia could look to replicate is the [MaRS Discovery District \(MaRS DD\)](#). MaRS DD provides an excellent example of the benefits of flexible immigration practices and is a comparable global benchmark as per term of reference (c).

MaRS DD is a not-for-profit corporation based in Toronto, Canada that seeks to commercialise publicly funded medical research and other technology through public-private partnerships. It functions as a start-up hub for medical, finance and related technology sectors.

Interestingly, MaRS DD along with other Toronto-based tech companies have created more tech jobs in the past year compared to Silicon Valley or New York City in the past five years.² This is partly due to the increased immigration barriers introduced by the USA, as well as the Canadian Government's Global Skills Strategy.

¹ <https://www.afr.com/technology/tech-firms-including-airtasker-hit-by-rd-incentive-crackdown-that-threatens-software-sector-20181129-h18j51>

² <https://www.ft.com/content/de63f33c-34e6-11e9-bd3a-8b2a211d90d5>



MaRS DD is a Designated Referral Partner for the Global Talent Stream within the Global Skills Strategy.³ This program allows businesses to hire unique and specialised foreign nationals to scale up and grow. A designated referral partner can refer and vouch for innovative Canadian companies for immigration and visa approval. This allows industry knowledge and expertise to be applied in a streamlined way to accelerate global talent acquisition.

This form of streamlined visa approval through a trusted network, if introduced in Australia, would go a long way to overcoming the skills gap.

IAG recommends the Committee consider the adoption of a Canadian-style immigration strategy that gives companies that lets companies play a role in vetting and approving immigration applications. Further, a steering committee made up of trusted names in the Australian innovation and venture capital space would serve as an effective vetting process for immigration applications.

CULTURE

In Firemark Ventures' experience, Australia doesn't yet have the culture of investing in start-ups, that is seen in comparable international markets. To overcome this, start-ups should seek to explore synergies with big companies, not just a capital investment.

Australian Start-up Culture

Australian start-ups are maturing and benefiting from the approximately 5-fold increase in available venture capital funding that has been rising over the last six-years. Further, the Australian venture capital market has seen a steady increase in quality deal-flow over this time.

However, Australian start-ups don't appear to be as well-funded or equipped with as experienced management teams than the start-ups coming out of other 'tech hubs' such as Silicon Valley, the UK or Israel. This can be best surmised as a lack of maturity.

This is aggravated by the generally conservative approach adopted by Australian investors who have less appetite for higher risk technology investments compared to US investors. This cultural attitude and lack of maturity present a significant challenge to investors, such as IAG, and start-ups themselves.

Firemark Ventures' investment model is structured around a strategic focus rather than investment return. Firemark Ventures seeks to invest in early to mid-stage start-ups that deliver technology solutions that IAG cannot deliver itself and has the added benefit of accelerating innovation within IAG.

Despite the challenges, Firemark Ventures has found and invested in high-quality start-ups within Australia that provide strategic benefits to our insurance business such as Airtasker and UpGuard.

³ <https://www.canada.ca/en/employment-social-development/services/foreign-workers/global-talent/requirements.html>

IAG recommends that start-ups seeking to work collaboratively with large corporates should seek to better understand what synergies can be achieved, rather than merely seeking capital investment.

Singaporean Experience

There are lessons from the Singaporean start-up regime that would inform the Committee on global benchmarks referred to in term of reference (c).

In 2012, not a single start-up was based in Singapore. However, in under a decade, Singapore has grown to become a leading global start-up hub.

The crucial policies that led to Singapore's start-up boom were its 'open for business' mentality (including significant tax breaks at 1, 3, and 5-year periods), and its generous grants funding. An example of the grant funding is the Monetary Authority of Singapore's (MAS) Financial Sector Technology and Innovation Grant scheme that supports 50% co-funding of staff roles for 24 months where a multinational chooses Singapore to base their R&D and innovation centres).⁴

While IAG has reassessed its Asian insurance business operations, it continues to maintain its presence in Singapore through Firemark Labs Singapore, due to the direct access to venture capital and technology start-ups. This reflects the success of the Singaporean regime

MAS' Regulatory Sandbox regime, (discussed below), along with the strong set of financial and cultural incentives has allowed Singapore to become a leading Fintech/start-up hub.

IAG recommends the Committee look at Singapore's policies as potential solutions to foster further growth in the Australian X-Tech and start-up sector.

REGULATION

The high level of regulatory and compliance overhead in the insurance sector is not X-Tech or start-up friendly and presents a barrier to innovation and streamlined approaches. The regulatory measures imposed upon IAG as a large insurer also affect the start-ups we partner and invest in. Below is a range of regulatory barriers and issues for the Committee's consideration.

Product Disclosure

The current product disclosure regime relies upon the assumption that 'more-is-better' with respect to insurance. However, this attitude has been criticised by regulators and consumer groups and presents a barrier to product simplification. The Product Disclosure Statement (PDS)⁵ and the Key Facts Sheet (KFS)⁶ are mandatory documents in Australian insurance regulation.

⁴ <https://www.mas.gov.sg/schemes-and-initiatives/fsti-scheme>

⁵ *Corporations Act 2001* (Cth) Part 7.9.

⁶ *Insurance Contracts Regulations 2017* (Cth, Part 2, Division 3 – Key Facts Sheets).

IAG believes that improving product disclosure and advice will help consumers better understand insurance products. Further, a streamlined disclosure regime will enable insurers, both traditional and emerging, to utilise technology to simplify the insurance purchase and claims process to deliver better products for consumers.

IAG and the ICA made submissions in March 2019 to Treasury's *Discussion Paper: 'Disclosure in General Insurance: Improving Consumer Understanding'*. These submissions provided an Action Plan for industry and Government to improve consumer understanding. Steps in the plan include calling on Government to enable the electronic disclosure of insurance documents and review of the usefulness of the key facts sheet (KFS). Further, regulation should move towards a principles-based approach, rather than style and form, which would streamline disclosure and the product purchase process.

An example of the potential benefits that can be gained from streamlined regulation is the US-based [Lemonade Insurance Company \(Lemonade\)](#).

Lemonade is a unicorn insurance start-up that offers renters and homeowners insurance targeted towards millennials. It seeks to disrupt the traditional insurance sector with a new business model based on behavioural economics and technology. The company utilises AI and chatbot technology to engage with customers via desktop or mobile and instantly provides quotes and process claims through an AI-driven chatbot. Lemonade advertises itself as an insurance product that can be acquired in 90 seconds, appealing to consumers seeking a simple, quick process that ensures they are covered.

The Lemonade quote system provides a simplified list of what is and is not covered and an optional link to a more detailed policy statement. Lemonade is an example of the type of innovation that can exist if a principles-based, rather than style and form approach is adopted.

[Poncho](#), an IAG and Firemark Labs Australia backed product seeks to target millennials with a streamlined car insurance product.

Poncho utilises an innovative visual PDS that uses cartoon figures and simplified language to convey coverage and exclusions. Poncho's car insurance PDS is 26 pages long and contains 8,905 words. This is much shorter compared to the PDS' of traditional insurers such as the Suncorp backed AAMI (47 pages and 13,469-word count) and IAG backed NRMA (88 pages and 20,310-word count). Despite Poncho's streamlined PDS, it is still a lengthy document that requires a significant amount of time to read and pales in comparison to the 90 second purchase time offered by Lemonade.

IAG recommends the Committee to look at further ways the product disclosure regime can be simplified for the benefit of consumer understanding as well as the adoption of technology to simplify and streamline the insurance process. Further, IAG believes that the best approach to reform in this space is a collaborative approach between Government, regulators, consumer groups and industry.

Further, access to government natural perils data and building codes information is also integral to improving guidance and disclosure in the general insurance context. Greater access to this data would enable machine learning and AI to increase the accuracy of its pricing and risk algorithms and would provide more data to insurtech start-ups.

IAG recommends the Committee investigate mechanisms to grant increased access to government natural perils data and building code information.

ASIC Fintech Regulatory Sandbox Regime

The ASIC Fintech Regulatory Sandbox Regime⁷ provides effective regulatory relief to early-stage X-tech start-ups to engage in testing and scaling up of their product. This is a positive feature of the Australian X-tech regulation.

The regime is designed to give new and emerging X-techs the limited ability to test their products in the market. This means large organisations such as IAG are not eligible to apply for relief under the regime due to their existing size and longevity. While this may seem consistent with encouraging competition, it leaves the organisations that IAG partners and invests in at a competitive disadvantage.

Almost all the initiatives carried by IAG's Firemark Labs and Firemark Ventures are in partnership with start-up and scale-ups. This allows for start-ups to overcome capital and resource barriers as well as give them access to testing channels, while also allowing IAG to benefit from its investment in terms of strategic insights.

However, the current regulatory sandbox arrangements mean IAG's partners are ineligible to apply for regulatory relief. This leaves small start-up and scale-ups in a position where their product testing is constrained by the regulatory requirements imposed upon a large insurer. This external imposition creates further internal barriers where large organisations are hesitant to allow testing.

The alternative proposition for these start-ups would be to go it alone to gain the regulatory relief but lose out on the capital and resources afforded by collaboration with a large insurer.

IAG recommends the creation of an additional category under the Regime that allows start-up partners to be afforded the benefits of the regulatory sandbox regime.

This acknowledges the start-up nature of the organisation whilst also encouraging large corporates to continue investing and sponsoring innovative X-tech and start-up organisations. This new category should be limited to start-up partners and not allow IAG as a large insurer can enjoy regulatory relief.

⁷ ASIC Regulatory Guide 257.

Application of APRA CPS to partners and pilots

There is uncertainty over whether IAG's adjacencies, such as Carbar, need to abide by APRA's Consolidated Prudential Standards (CPS). This is despite these operations having no insurance aspect to them.

Carbar is a digital vehicle trading and subscription platform that was founded in Melbourne in 2016 and launched in Sydney in May 2019. IAG acquired a majority stake in Carbar in July 2019. Carbar offers an alternative to car ownership, allowing customers to pay a weekly subscription fee to access a vehicle that accommodates their needs.

IAG has had to divert resources from technology development on its new ventures to address the application of CPS 234 to our investment in Carbar.

The uncertainty around the application of CPS diverts resources and funding away from growth into adjacent markets.

IAG recommends the Committee look at options to clarify the application of CPS and other similar insurance regulations to non-insurance functions of our business.

Consumer Data Right

The Consumer Data Right (**CDR**) enables consumers to have greater access and control over their data. The CDR has already been rolled out to the banking sector, with energy and telecommunications to follow. Given the stated ambition of the CDR, we anticipate that insurance may follow at some point in the future.

While the CDR is not a major focus for the Committee, IAG wishes to take this opportunity to provide further comment on the nature of CDR and its potential implementation in the insurance sector.

The *Issues Paper* notes that FinTech Australia has recommended that, "unlocking other data including superannuation and insurance under CDR would be of great value for FinTech companies, as there are often complex areas for consumers to navigate and understand".⁸

However, it must be noted that the protection of underwriting data, including pricing and historic claims data and models, is essential to the proper functioning of the insurance sector.

Underwriting data is a source of intellectual property and a commercial asset for insurers.⁹ It forms the basis of insurers assessing and pricing risk as well as price competition. It is imperative that any future rollout of CDR that looks to grant access (either read or write) to consumer data to Fintech companies does not compromise the IP embedded in the underwriting data of insurers. To do so would be to discourage further innovation in the understanding of risk.

⁸ Senate Select Committee on Financial Technology and Regulatory Technology Issues Paper, page 9.

⁹ ICA Submission to Treasury CDR consultation (12/10/18).

The *Treasury Laws Amendment (Consumer Data Right) Bill 2019 (Cth)* specified that CDR rules would be tailored to the unique attributes of each sector.¹⁰ IAG supports this feature and would encourage the drafting of rules to be conducted with the consideration of intellectual property. IAG supports the ICA proposal that a minimum 60-day public consultation period is set prior to the designation of general insurance CDR rules. Further, these rules should be drafted with specific exemptions and anti-avoidance provisions to address issues with intellectual property.

Additionally, there are several uncertainties surrounding the broader implementation of the CDR. The most significant being the presumption that everyone has data and the idea that more data means a better deal. We consider this to be a poor assumption. In insurance, while more data may lead to more accurate pricing and a better premium price for certain groups, it may further entrench disadvantage in already disadvantaged groups.

For some prices to fall, others must generally rise. In some instances, market forces may create a disadvantage for certain vulnerable groups due to a lack of access to relevant data, if such data is an effective entry requirement for access to a better deal. The potential for this extends beyond insurance and is particularly of interest where data is used outside of the primary sector it originated in (for example, banking data being used to give access to a better deal on a telecommunications product might be detrimental to those without access to banking data, for whom the price would be likely to rise).

IAG recommends caution around the extension, application and use of the CDR and associated data. Further, the Government should seek to provide guidance to stakeholders on appropriate data usage.

ASX Block Sales Rules

The ASX rules surrounding block sales of shares by start-up founders are a potential barrier for companies contemplating listing on the Australian Stock Exchange. This issue has been raised by high-profile entrepreneurs such as Atlassian's Mike Cannon-Brookes and Wisetech Global's Richard White.¹¹ IAG has also heard similar views from colleagues in the venture capital space

Currently, founders are required to sell via block sale when they don't hold any inside information, which for smaller start-ups is often very rare. This contrasts with the more flexible US approach that allows the founder to signal their intention to sell their shares at the start of a set period, the sales of which are facilitated by a broker. The current rules make raising equity potentially difficult and create a situation where sales of shares by founders may be viewed suspiciously by the market.

¹⁰ *Treasury Laws Amendment (Consumer Data Right) Bill 2019 (Cth)*, clause 1.31, page 11, https://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r6370_ems_ce513d68-7222-49f4-a2fe-67e1c2b32fed/upload_pdf/712911.pdf;fileType=application%2Fpdf

¹¹ <https://www.afr.com/companies/financial-services/end-smoke-signals-to-attract-more-tech-founders-to-asx-20190501-p51ixs>

The ASX's recent announcement that it will launch a new S&P technology index (the S&P/ASX All Technology Index) indicates that there is a desire to mirror the United States of America's Nasdaq composite index and increase focus on technology stocks.¹² Whilst this represents a positive step towards increased investment, it would likely be enhanced by greater flexibility provided to start-up founders.

The current ASX block sales rules are a potential barrier to the future growth of start-up expansion and may lead to successful start-ups listing overseas.

IAG recommends the Committee investigate the adoption of the United States of America's Nasdaq approach to the selling of founder stocks.

CONCLUSION

The Australian X-Tech, start-up and innovation sector is ripe for growth. There are multiple opportunities for Government to assist by removing barriers and creating flexibility in the sector. This is particularly relevant for insurance-related x-tech and start-ups.

The Committee should consider the following recommendations to encourage the continued growth of the sector:

- a) Extending the Research & Development Tax Incentive to software developments;
- b) Adopting a Canadian-style immigration strategy that lets companies play a role in vetting and approving immigration applications;
- c) Start-ups should seek to explore synergies with big companies rather than just a capital investment;
- d) Looking at Singapore's start-up friendly tax and grant policies;
- e) Simplifying product disclosure regulation to allow for simplification of the insurance purchasing process;
- f) Granting increased access to government natural perils data and building code information;
- g) Creating an additional category under the ASIC Regulatory Sandbox Regime for start-up partner organisations to apply for regulatory relief;
- h) Clarifying the application of APRA Consolidated Prudential Standards and other insurance regulations to non-insurance business functions;
- i) Caution around the extension and application of the Consumer Data Right and the usage of this data; and
- j) Adoption of the Nasdaq approach to sales of founder-held stock.

¹² <https://www.afr.com/technology/asx-creates-the-aussie-nasdaq-20191213-p53jr5>