



Australian Productivity Commission  
Level 2  
15 Moore Street  
CANBERRA CITY ACT 2600

By email: [transtasmanreview@pc.gov.au](mailto:transtasmanreview@pc.gov.au)

4 June 2012

Dear Sir/Madam

### **STRENGTHENING ECONOMIC RELATIONS BETWEEN AUSTRALIA AND NEW ZEALAND**

The Insurance Council of Australia (Insurance Council)<sup>1</sup> welcomes the opportunity to provide a submission to the joint study by the Productivity Commissions of Australia and New Zealand into economic relations between the two countries. Given that many of the general insurers active in Australia and New Zealand are common to both markets, the ongoing success of work to reduce, and if possible eliminate, the consequences of regulatory differences is of real significance to Insurance Council members. We note that individual members may also provide individual submissions directly to the joint study.

The Insurance Council acknowledges that the Reserve Bank of New Zealand (RBNZ) has been working with the Australian Prudential Regulation Authority (APRA) in relation to the co-ordination of insurance regulation. The Insurance Council welcomes the recognition generally given by RBNZ to the consequences for the related parties operating in New Zealand of the rigorous Australian prudential regime for general insurers supervised by APRA. However, the decision by the RBNZ to increase the catastrophe risk capital charge for non-life insurance to at least a 1 in 1,000 years loss return period compared to APRA's 1 in 250 years requirement has created a material difference between the Australian and New Zealand regulatory environments.

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<sup>1</sup> The Insurance Council 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. December 2011 Australian Prudential Regulation Authority (APRA) statistics show that the private sector insurance industry generates gross written premium of \$36.0 billion per annum and has total assets of \$115.6 billion. The industry employs approx 60,000 people and on average pays out about \$110 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).

Our members are concerned that inconsistency between the prudential regulators' solvency standards of the RBNZ and APRA imposes a significant regulatory burden and cost on Australian insurers that undermines international competitiveness. The New Zealand standard will have a significant financial impact on insurers and we submit reflects an unnecessarily conservative prudential regime. Our members report this makes New Zealand a less attractive place for international insurers to do business and is a disincentive for diversified insurers in both markets. The Insurance Council submits that this matter should be considered by the Commissions when preparing its reports to Government on regulatory burdens, increased competition and integration between the two countries.

Although harmonisation or mutual recognition of market conduct regulation is necessarily ambitious because of its complexity and inter relationships with other elements of the regulatory framework, the Insurance Council would further suggest that harmonisation of the disclosure requirements applying to general insurance products should be set as a longer term goal. There would be obvious scale benefits if common disclosure documents could be used by insurers active in both markets.

If you require further information, please contact Mr John Anning, Insurance Council's General Manager Policy- Regulation Directorate at [janning@insurancecouncil.com.au](mailto:janning@insurancecouncil.com.au).

Yours sincerely



Robert Whelan  
Executive Director & CEO