

Australian Services Exports
Productivity Commission
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Melbourne VIC 8003

By email: services.exports@pc.gov.au

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Dear Sir/Madam

Barriers to Services Exports

The Insurance Council of Australia¹ (Insurance Council) welcomes the opportunity to provide this submission on the Productivity Commission's Issues Paper, *Barriers to Services Exports*. The Insurance Council believes that the Commission's study into barriers to growth in Australian services exports is a very worthwhile undertaking. With the increasing integration of global markets for financial products and services, there remains vast potential for Australian-domiciled insurance firms to grow their presence in offshore markets.

Global competition has clearly had an impact on the Australian domestic market, with 8 of the 19 insurers in the domestic market having their head offices domiciled outside of Australia. However, Australian domiciled insurers are not as active globally, with only 3 of the 19 insurers domiciled in Australia operating beyond Australia's borders.

Our submission outlines the need for the regulatory regime affecting insurers to have greater regard for the impact of regulations on the competitiveness of firms. We also note the increasing importance of the growing Asia Pacific market for Australian insurance firms.

Strengthening the Focus on Competition

The worldwide liberalisation of trade and capital markets has resulted in Australian businesses being increasingly exposed to international opportunities. As such, it is vital that Australia has a regulatory framework which allows business to respond to challenges and developments in the international market place. The Financial System Inquiry (FSI), in its

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. December 2014 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$41.7 billion per annum and has total assets of \$114.7 billion. The industry employs approximately 60,000 people and on average pays out about \$107 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).

final report, acknowledged that financial services businesses competing across national borders can find themselves subject to duplicated and conflicting obligations, which can impede Australian-domiciled firms' ability to participate in global financial markets. The FSI found that a shortcoming in the current regulatory regime is that there is no current requirement for regulators, such as the Australian Prudential Regulation Authority (APRA) and Australian Securities and Investments Commission (ASIC), to explain how they balance competition considerations with other regulatory objectives in reaching decisions.

An example of how a better balancing of competition considerations with other regulatory objectives can enhance the ability of Australian general insurers to achieve commercial presence offshore is in the area of prudential regulation. APRA is the Australian regulator responsible for prudential supervision of general insurers. Effective prudential regulation is vital to ensure that financial institutions, and the financial system as a whole, are robust. However, in recent years, APRA's early adoption of international prudential reforms is likely to create a competitive disadvantage for Australian general insurers when the minimum capital requirements in Australia are significantly higher than those of our competitors.

Members have also advised that APRA has tended to take an overly conservative view with regard to joint venture investments in Asia by placing a greater weighting on the associated risks and lower weighting on the economic value of such investments. Given the current regulatory requirements in the Asia Pacific region generally only allow minority investments as a first step towards ultimate control and ownership, it is likely any expansion will be more financially difficult for Australian insurance companies compared with their European or US counterparts. APRA's view of joint venture investments is at odds with the Government's vision of positioning Australia as a leading financial services centre in the Asia Pacific region.

Regulators should be encouraged to take a global view in their deliberations. One of the recommendations of the FSI is that there should be a stronger focus on competition in the financial system. The Insurance Council supports this recommendation, and strongly agrees that regulators should demonstrate that they have fully considered the trade-off between competition and regulatory objectives in the development of new regulations. This should be evidenced by more explicit reporting about the competition implications of regulatory and legislative decisions.

Opportunities in the Asia Pacific Region

Australian businesses have significant opportunities with the emerging growth of the Asia Pacific region. The Insurance Council believes that it is important that the industry work closely with Government to identify opportunities. We suggest that the Government should provide more support for Australian companies operating in this region. Although Austrade assists Australian companies and investors, increased involvement and consultation both at the agency and embassy level on the ground will improve opportunities for Australian businesses in the region.

Specific suggestions include increased:

- participation in local business councils;
- consultation with Australian companies operating in the region (particularly those who have been operating in the area for some time) who can offer valuable insights from their intimate knowledge of the region; and

- Australian Government interest and presence at both an embassy and Canberra level.

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 tel: 02 9253 5121 or email: janning@insurancecouncil.com.au.

Yours sincerely



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