

30 May 2012

Australian Productivity Commission
Trans-Tasman Study
GPO Box 1428
CANBERRA CITY ACT 2601

Via email: transtasmanreview@pc.gov.au

Strengthening economic relations between Australia and New Zealand

Insurance Australia Group Limited (IAG) welcomes the opportunity to make a submission in relation to the Issues Paper – *Strengthening economic relations between Australia and New Zealand* (April 2012) - by the Australian and New Zealand Productivity Commissions.

IAG

IAG is the parent company of an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite over \$8 billion of premium per annum and paid around \$6.0 billion in claims per annum. It employs more than 13,000 people of whom around 9,000 are in Australia. Across our portfolio of brands IAG insures 7.0 million cars, 2.5 million homes, 93,000 farms, 122,000 employers and 470,000 businesses. IAG had more than 16.2 million active risks in force or policies in force in financial year 2011.

IAG in Australia

IAG's Australian operations distribute a range of personal and commercial insurance products, both directly to the customer and indirectly through a network of intermediaries. There are two businesses in IAG's Australian operations:

- Australia Direct Insurance, the Group's largest business, distributes products through a network of branches, franchises and country service centres throughout metropolitan, regional and rural Australia, as well as through call centres and online. Products are distributed under the NRMA Insurance brand in NSW, Queensland, ACT and Tasmania; SGIC in South Australia; SGIO in Western Australia; and RACV in Victoria. A nationwide online brand, Buzz Insurance, was launched in May 2009, initially focusing on car insurance and extended to home insurance in June 2010; and
- Australia Intermediated Insurance, known as CGU, sells products nationally, through intermediary channels, including a network of more than 1,000 insurance brokers and authorised representatives, as well as through motor dealerships and financial institutions.

IAG in New Zealand

IAG is the leading general insurance provider in New Zealand across both direct and intermediated channels. Insurance products are predominantly sold directly to customers under the State and AMI brands and through intermediaries (insurance brokers and authorised representatives) under the NZI brand. Personal lines and commercial products are also distributed under third party brands by IAG's corporate partners, including large financial institutions.

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Insurance Australia
Group Limited
ABN 60 090 739 923

388 George Street
Sydney NSW 2000
Australia

T +61 (0)2 9292 3193
www.iag.com.au

IAG's INTEREST IN THE JOINT SCOPING STUDY

IAG supports the Governments of Australia and New Zealand efforts to ensure strong economic relations between Australia and New Zealand, particularly through efforts to reducing the regulatory burden on business and encouraging closer economic co-operation.

The worldwide liberalisation of trade and capital markets has resulted in Australian and New Zealand businesses being increasingly exposed to international opportunities and competition in our home markets. As such, it is vital that Australia and New Zealand have a regulatory framework which allows business to respond to challenges and developments in the international marketplace.

For international companies to continue to operate globally it will be important to ensure that any changes to regulation leads to a reduction or elimination of regulatory overlaps and a more efficient and fair marketplace.

Prudential Regulation - Insurance

IAG believes it is important that Australian and New Zealand prudential regulations are harmonised so as not to impose significant regulatory burden and cost on insurers that undermines international competitiveness.

While IAG appreciates 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 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.

This is exacerbated by differences in definitions, immaterial prudential requirements and documentation, and overly prescriptive compliance and governance requirements which limit the sensible discretions which should be available to responsible Boards and managements.

The prudential regulation of general insurance aims to provide policyholders with a degree of confidence those insurers will be in a position to honour their financial commitments. The prudential framework seeks to balance the objectives of maintaining efficient, dynamic and competitive financial markets, and ensuring the continuing stability and integrity of the financial system. This balancing act requires, on the one hand, that the government does not guarantee the future of any particular player in the financial system; and, on the other, that the failure of one player does not threaten systemic stability.

An efficient, well run and transparent general insurance sector allows an economy to reduce risk cost effectively, price risk appropriately, protect consumers, while promoting economic activity by allowing policyholders to reduce risk and protect assets.

It is necessary to ensure that regulators do not impose significant regulatory burden and cost on insurers that undermines international competitiveness.

The Australian – New Zealand prudential regime needs to provide a competitively neutral system that allows all industry participants to compete on the same consistent regulatory playing field and avoids or minimises incidents of regulatory overlap. Effective, efficient and co-ordinated regulation and a strong regulatory architecture are essential for a coherent regulatory system.

Capital Flows

IAG notes the *Issues Paper* highlights that in order to further economic integration between Australia and New Zealand, consideration could be given to the appropriate degree of harmonisation of business income tax arrangements between the two countries. IAG agrees that mutual recognition of imputation credits would have the potential to improve the allocation of investments between the two countries and reduce barriers to competition between Australian and New Zealand companies.

Taxation - Insurance

Australia's and New Zealand financial services sector have been strong advocates for improved taxation bases and taxation reform that see revenue dependency shift from transaction style taxes (for example insurance) towards those taxes that are more efficient.

The general insurance sector argues that there is a clear social and economic case for eliminating or at least reducing insurance taxes and charges (fire services levy and stamp duty in Australia and fire services levy and earthquake commission levy in New Zealand) as a priority in any reform of the taxation system. This case is based on recognition of the essential benefits of insurance to the economy and community generally and of the role of the tax system in encouraging insurance coverage.

Indeed, a number of reviews and inquiries have argued for insurance tax reform - the IPART Review of State Taxes (2008), the Henry Tax Review (2009), the Victorian Bushfire Royal Commission (2009), and the Johnson Report into Australia as a Financial Centre Forum (2009) as well as the Tax Forum (2011).

Yours sincerely,

Michael J Wilkins
Managing Director &
Chief Executive Officer