



Australia's Insurance Industry – Export and Investment Opportunities

Australia's insurance industry has continued to enjoy solid premium growth and its profitability has remained relatively sound amid the current global financial turmoil. The impressive outcome has been primarily attributable to Australia's overall healthy financial system, sound economic fundamentals, sophisticated financial infrastructure, and strong regulatory regime.

Australia now ranks 12th globally in terms of premiums and 4th in the Asia-Pacific region, according to Swiss Re, *World Insurance in 2007*. A mature industry, it is innovative, well-regulated, and backed by strong legal, accounting, education, human resource and IT capacities. Australia's insurance capability helps underpin the country's financial services industry, strengthening its position as a financial services hub in the Asia-Pacific region.

While the Australian market is generally well serviced, there is evidence of underinsurance and non-insurance in certain segments of the domestic market and niche opportunities exist for new entrants or expansion. Opportunities also exist for insurers to leverage new distribution channels and product innovation.

There is also a compelling case for global and domestic insurers to use Australia as a base within the region for strategy, analytics and actuarial modelling.

General Insurance

The general insurance market in Australia is relatively mature and sophisticated in terms of product offering and risk assessment and management. Its underwriters and actuaries are recognised as world class, and the industry is subject to strong risk-based supervision and regulation by the Australian Prudential Regulation Authority (APRA).

As at 30 June 2008 there were 130 general insurance companies operating in Australia. They managed A\$91 billion in assets, an increase of A\$0.5 billion from June 2007. Net premium revenue for the industry in the year ended 30 June 2008 was A\$22.8 billion, up 3.0 per cent from the previous year. Of this, direct insurers wrote A\$21.5 billion (94.3 per cent). The remaining A\$1.3 billion (5.7 per cent) was written by re-insurers.⁽¹⁾

Total industry's net profit after tax in the year ended 30 June 2008 was A\$3.0 billion, compared with A\$5.2 billion in the previous year.⁽¹⁾

➔ Business Opportunities

While Australia's general insurance industry is mature and highly competitive, some niche areas have been less well-serviced by the domestic market and there is evidence of under or non-insurance that creates opportunities for growth and/or new entrants into the market. In addition, opportunities exist for Australian insurers to leverage their existing skills and expertise to support or enter emerging markets in the region.

Life Insurance

Australia has a modern life insurance industry, with products on offer having largely moved away from the traditional combined "investment plus risk" products to unbundled style products.

As at 31 March 2008 there were 32 life insurance companies operating in Australia. They managed A\$232 billion in assets (backing both Australian and overseas policyholders) and received A\$55 billion in premium income.

➔ Business Opportunities

With the rapid increase in superannuation funds over the past decade, life insurance offices have become increasingly involved in the provision of investment and superannuation (pension) products and services. Life insurance companies offer superannuation and related products via their own superannuation plans and master trusts, as well as a wide range of services to other superannuation funds including life insurance, funds management and administrative services. At the end of March 2008, life insurance offices were the second largest holder (A\$232bn) of managed fund assets, with around 90 per cent of these being superannuation-based (around A\$208bn).⁽²⁾

(1) APRA, General Insurance Statistics, *Quarterly General Insurance Performance Statistics*, June 2008 (issued 18 September 2008), Tables 1, 4 & 7; (2) APRA, Life Insurance Statistics, *Life Insurance Trends* March 2008 (issued 15 July 2008), Tables 1 & 4



Distribution Channels. Changes in the structure of the superannuation industry, combined with choice of superannuation and research showing a high level of underinsurance, has created opportunities for enhanced risk based group insurance offerings.

Underinsurance/non-insurance. According to actuarial research undertaken in 2005 on behalf of the Investment and Financial Services Association (IFSA), there is a gap of A\$1,370 billion between the level of life insurance cover held by Australian families and the level of cover required to shield against financial risk.

Private Health Insurance

Private Health Insurance is a voluntary facility for private funding of hospital care and ancillaries, sitting alongside a compulsory tax-financed public system (Medicare). Private health insurance covers private hospital costs, and services such as ambulance transport, dental care, optical appliances, physiotherapy, chiropractic, and pharmaceutical (where the Government's Pharmaceutical Benefit Scheme does not apply).

As at 30 June 2007, there were 38 Registered Health Benefit Organisations. Of these, only 5 were 'for profit funds', and only a few were publicly listed. Most private health insurers are mutual not-for-profit entities. BUPA Australia is the only internationally owned private health insurer in Australia.⁽³⁾

The industry recorded a surplus of A\$1,288 million before tax in 2006–07 (2005–06: A\$984mn). This result for the industry represents 11.0 per cent of contribution income (2005–06: 9.0 per cent). Of this surplus, health related business and other revenue comprised A\$672 million (2005–06: A\$446mn), with the remaining A\$616 million as underwriting surplus (2005–06: A\$538mn).⁽⁴⁾

In 2006–07, total contribution income was A\$11,127 million, an increase of A\$867 million (8.4 per cent) from 2005–06. Premiums increased by an average of 4.5 per cent in 2007 compared to 5.7 per cent in 2006. Total assets for the industry as at 30 June 30 2007, were A\$8.4 billion.⁽⁴⁾

Business Opportunities

Due to the nature of the private health insurance sector in Australia, specifically the high proportion of funds that are not-for-profit mutual entities, the high level of regulation and the need for strong distribution and health care provider networks, there has been limited foreign participation to date.

Legislation came into effect in April 2007 that allows private health insurers to demutualise and change their status from not-for-profit to for-profit. This new environment may create new opportunities for acquisitions or investments in the sector. For example, NIB demutualised and listed on the Australian Stock Exchange in November 2007, and in May 2008 BUPA and MBF merged.

Australia - a regional centre for actuarial and strategic operations

There is a compelling case for global and domestic insurers to use Australia as a base within the Asia-Pacific region for strategy, analytics and actuarial modelling.

Australia has deep and sophisticated financial markets, large numbers of finance sector professionals and ready pool of tertiary and vocationally trained students. Of particular interest to insurance industry is the number of qualified actuaries in Australia. According to Institute of Actuaries of Australia, the number of actuary fellows in 2008 was 1,586, a significant pool by global standards.

Actuarial qualification standards in Australia are exacting and well regulated. The Australian qualification is recognised globally as equivalent to that of the UK, USA or Canada. Mutual recognition agreements for actuarial qualifications exist between Australia and these countries, as well as with India. Australia also has a strong pool of specialist insurance underwriters and modellers with unique understanding of risks in the Asia-Pacific region.

Salary levels in Australia for actuaries and other insurance professionals are generally lower than those in comparable centres around the world, and they are more stable than in many lower-cost centres.

(3) BUPA Australia is owned by the United Kingdom company BUPA Health Care Organisation; (4) Private Health Insurance Administration Council, *Operations of the Private Health Insurers*, Annual Report 2006–07, pages 25 & 78