Australian Prudential Regulation Authority

Insurance

and

Superannuation

Bulletin

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Australian Prudential Regulation Authority

The Australian Prudential Regulation Authority - APRA - came into existence on 1 July 1998. Here we briefly outline APRA's role and responsibilities and its approach to the insurance and superannuation industries.

APRA is the Commonwealth agency which is now responsible for prudential regulation of banks, life insurance companies, general insurance companies and superannuation funds, having taken over these functions from the Insurance and Superannuation Commission (for insurance and superannuation) and the Reserve Bank of Australia (for banks). Other responsibilities of the Insurance and Superannuation Commission (ISC) - related mainly to disclosure standards, market conduct, complaints handling and licensing of agents and brokers - have been transferred to the Australian Securities and Investments Commission (ASIC), the successor to the ASC.

It is currently planned that, later in 1998 (or as soon as practicable thereafter), APRA will also become the prudential regulator of building societies, credit unions and friendly societies which are presently supervised under State legislation.

Insurance and Superannuation

As prudential regulator, we will seek to promote public confidence in the insurance and superannuation industries by protecting the interests of policyholders and fund members. Like its predecessor, APRA's approach will allow for the maximum practical degree of commercial innovation, competition and structural change.

Legislation, regulations and guidelines previously administered by the ISC in its prudential regulation of insurance and superannuation have been transferred automatically to APRA, and continue unchanged. APRA has endorsed all ISC interpretations, positions and decisions previously made in relation to these prudential responsibilities. We will, of course, be reviewing and revising these as appropriate.

Graeme Thompson
Chief Executive Officer
September 1998

Superannuation fund administration - latest analysis

Operating a large superannuation fund requires the efficient administration of functions such as the processing of member entrants and exits, contributions, benefit payments and official reporting and accounting. In this article, we update previous analysis of the administration market for the large superannuation funds.

To ensure that their fund's administrative functions are properly carried out, trustees have the choice of having the administration run by the fund itself (known as internal administration) or contracting the fund administration to a specialist superannuation organisation (known as external administration). When considering which option to pursue, trustees also need to assess associated issues such as cost, fund expertise and access to systems infrastructure.

In this article, based upon the information supplied in the 1996-97 Annual Returns lodged with APRA, we will update previous analysis of the fund administration market for non-excluded funds and consider the major differences between funds using internal and external administration. We will also re-examine the cost differences that are involved in the different strategies. Finally we consider the impact of recent legislative changes on administration costs for large funds. This article does not cover the responsibilities of trustees in properly selecting, monitoring and maintaining external administration arrangements.

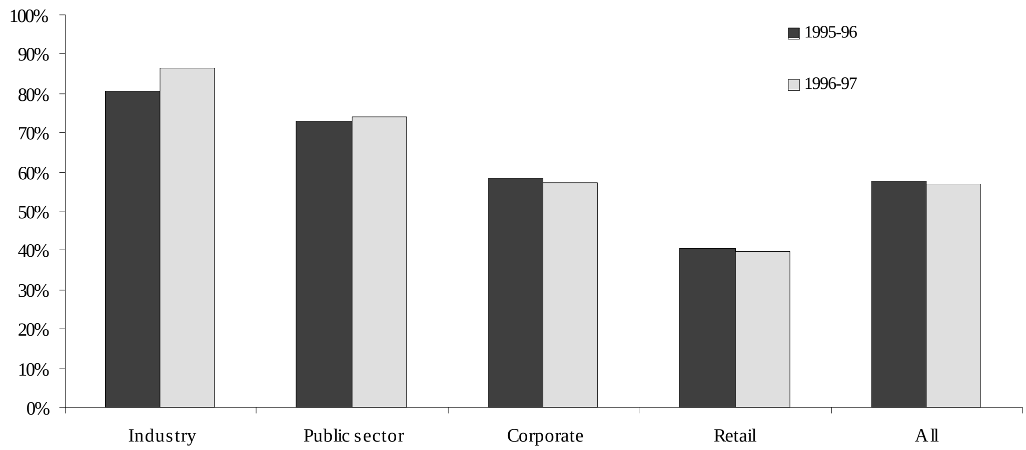
External administrators

Nearly 60 per cent of all large funds use an external administrator. Industry funds are the highest users of external administrators (at 86 per cent of funds) while retail funds, most likely due to their ability to draw upon their in-house administration operations, are the lowest users of external administrators (at 40 per cent of funds). See figure 1.

The largest change during 1996-97 was in the proportion of industry funds using external administrators, which increased by around six percentage points. The proportions for other fund types remained fairly steady, with slight decreases for corporate and retail funds.

Variation between the use of internal and external administration is however even more marked when viewed from a benefit structure basis. For example the more difficult and specialised administration requirements needed for defined benefit funds results in around 87 per cent of these funds using an external

Figure 1: External administration and fundtype



administrator, while only around 46 per cent of accumulation funds use an external administrator.

An overriding issue regarding whether to use an external administrator however, concerns economies of scale and the level of in-house expertise. For example, the funds most likely to use an external administrator are those with between 100 and 500 members (see figure 2). This suggests that funds in this membership range are least likely to have access to the expertise and economies of scale required to have efficient internal administration. However, as the size of the fund membership increases, the use of external administration decreases, suggesting that economies of scale associated with increasing membership make the use of internal administration a more viable option. However, this trend ceases once a fund has more than 10 000 members when they have a distinct preference for outsourcing arrangements.

A notable exception to the general rule of external administration being more common for smaller funds is that trustees of funds with fewer than 100 members are least likely to make use of external administration. This may however reflect a desire by these small business trustees to have more direct control over the operations of their fund.

However, within this membership range, the cost of external administration also becomes considerably more expensive and this may also be impacting the decision to choose internal administration. For example, for these funds, operating expenses, including both administration and investment management expenses, are around one and a half times greater on a per member basis for funds using external administration than for funds using internal administration. See figure 3.

One reason for the differential operating costs for these small membership funds may be the affect of internal subsidies for the administration of the superannuation fund. This occurs when an employee's cost of working on superannuation fund matters are absorbed by the employer without an explicit charge being made to the fund for the employee's time and resources. In fact, previous ISC analysis has indicated that up to 25 per cent of corporate funds fully subsidise the cost of their fund's administration.

Significantly, however, there has been a considerable convergence in average costs for this size fund since 1995-96, when the difference between external and internal administration was a factor of some two and a half times. In fact, internal administration has become more costly for all fund sizes, whereas external administration has become cheaper for all but the 1000-5000 member funds. This presumably reflects a general increase in the costs of fund administration and investment which external administrators have compensated for through increased efficiencies. This

Figure 2: External administration and fund size 1996-97

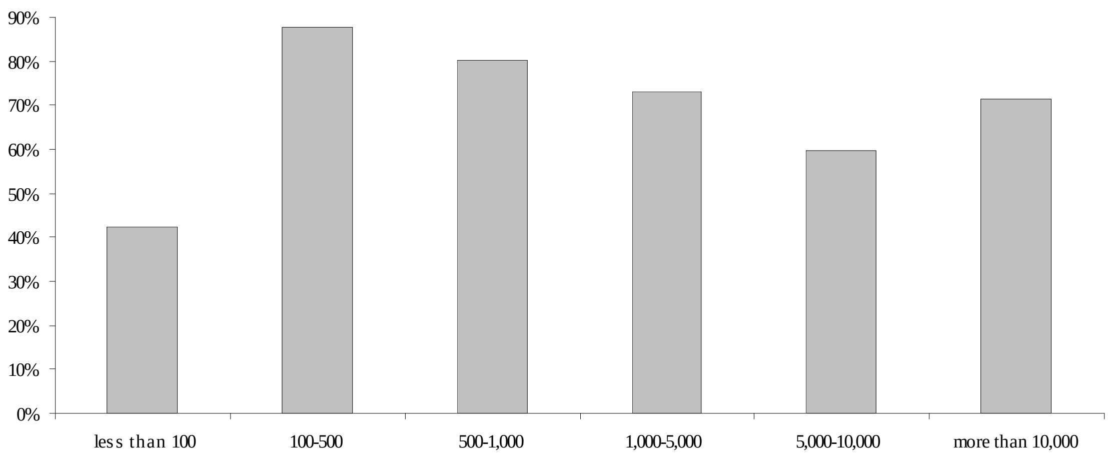


Table 1: Market coverage in the external administration market

	Funds	Members	Assets
Top 5 administrators	45%	9%	24%
Top 10 administrators	62%	15%	37%
All 250 administrator	*100%*	*100%*	*100%*

seems to indicate a strong degree of competition among external administrators.

These developments have also made external administration distinctly cheaper than internal administration for funds with more than 1,000 members, suggesting that external administrators have been better able to take advantage of the economies of scale available for funds of this size.

As before however, for funds with between 100 and 1,000 members there is little difference in operating costs between funds with internal administration as opposed to external administration, suggesting that cost may not be a major factor in the decision to use external administration in these cases. A more important factor may be access to expertise and system requirements.

Market concentration

As at June 1997 there were around 2,600 non-excluded funds using external administration, holding $116 billion in assets on behalf of around 11.5 million member accounts (not including exempt public sector superannuation schemes).

Some 250 specialist superannuation organisations provided the administration services to these funds. However, the superannuation administration market, like many finance sector markets, is relatively concentrated. See Table 1, where administrators have been ranked by the number of funds they administer.

Although the administration market for non-excluded funds is relatively concentrated in terms of funds, it is important to note that these funds represent a much smaller proportion of all member accounts and assets. For example, the 45 per cent of funds controlled by the top 5 administrators represent only 9 per cent of externally administered member accounts and 24 per cent of externally administered assets. This further reinforces the result that the main market serviced by the major administrators is the small to medium member sized funds.

Figure 3: Fund operating costs per member 1996-97

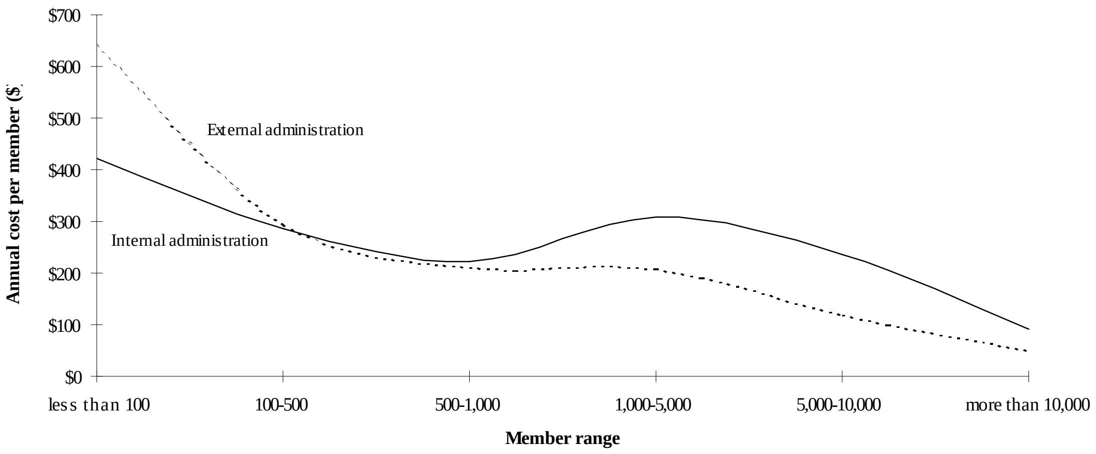
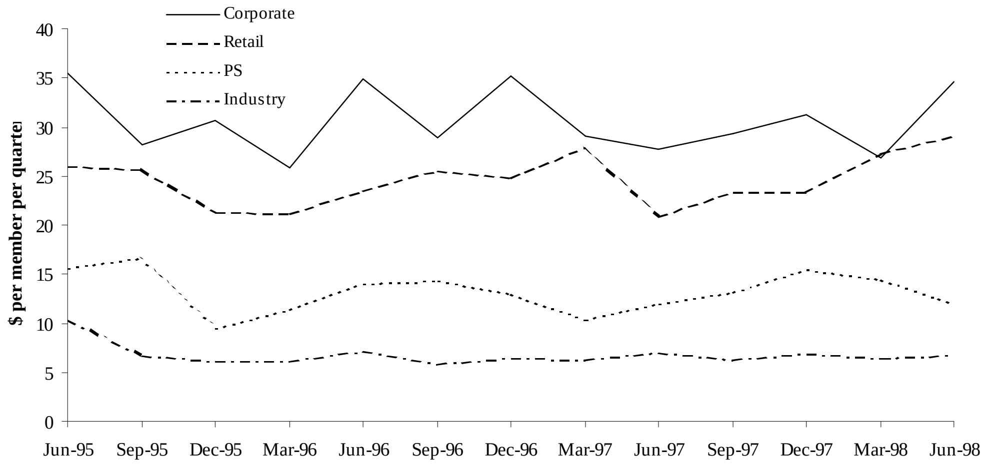


Figure 4: Survey fund administration costs 1995-98



Administration costs for large funds

Funds surveyed by APRA on a quarterly basis are required to provide a separate assessment of administration and investment expenses. This permits a more detailed analysis of fund administration costs. Figure 4 shows the average administration expense per member for non-excluded funds with more than $60 million assets under management (AUM) over the last three years (including SIS exempt public sector funds). Note that a simple average cost per member ignores variations in account balances. Thus, for example, the apparently higher charges of corporate funds may still represent a small percentage of a member's account balance.

A degree of fluctuation in average costs per member occurs in all sectors, most clearly for the corporate superannuation funds. This may be due to funds making annual payments to cover administration costs rather than regular quarterly payments. For example, for corporate funds payments for administration services may coincide with the company's usual balance date, explaining the higher costs experienced by corporate funds in June and December. Additionally, corporate fund average costs per member are impacted by the presence of relatively large (in terms of assets) defined benefit schemes with relatively few members and corresponding high administration costs when expressed on a per member basis.

Significantly, there does not appear to be a discernable impact on costs associated with the implementation of the superannuation surcharge. This suggests that any increased costs experienced by funds due to the surcharge may be being matched by increased administrative efficiencies in other areas. Alternatively, any additional costs may be being absorbed as non-explicit costs, for example, through the difference between the fund's investment earning rate and its crediting rate. It is also possible that existing contracts with external administrators have not yet been renegotiated to include provision for surcharge requirements.

This result is consistent with recently published ASFA survey results indicating that 84 per cent of respondents could not currently quantify administration costs due to the introduction of the surcharge.

In estimating the charges actually paid by members it is important to note that the administration costs of defined benefit funds (which are generally higher) are not passed on to the members, instead being borne by employers or the fund surplus (if applicable). In contrast, administration costs for accumulation funds are generally passed on to the members. A weighted average of administration costs for surveyed accumulation funds (those over $60 million AUM) indicates average weekly administration charges of $1.35 per member. These funds represent 13.6 million member accounts, or 75 per cent of total member accounts.

Focus on excluded funds

Excluded funds, often referred to as DIY or small self-managed funds, are the fastest growing sector of the superannuation industry, with an annual growth rate in assets under management of around 23 per cent. In this article we profile this important market.

An excluded fund is defined by the Superannuation Industry Supervision (SIS) Act as being a superannuation fund with less than five members[1]. Excluded funds currently comprise 97 per cent of all regulated funds. While total membership is small (representing only two per cent of all member accounts), their combined assets ($42 billion) make up some 12 per cent of the superannuation industry. Small self-managed funds are the fastest growing sector of the superannuation industry, with an annual growth rate in assets of around 23 per cent. This article presents an overview of the excluded fund sector, based primarily on Annual Returns lodged with APRA in 1998 in respect of the 1996-97 year.

Fund numbers

At June 1998 the number of excluded funds reached 181 774. Figure 1 shows the number of excluded funds established in each month from January 1995 onwards. While on average funds have been establishing at the rate of 470 a week, in reality up to 30 per cent of all funds established during the year are established in June, highlighting the link between small fund superannuation and taxation affairs.

Note that the June 1998 monthly establishment figure is preliminary only and subject to change.

In contrast to the rapid expansion of the sector, very few funds are winding up. Once the decision has been made to establish a small self-managed fund, the trustees (members) appear to remain committed to the fund. Once established, a small fund is a savings vehicle that can be used to meet both pre and post retirement needs, and in addition can also be used by succeeding generations. Over the last three years fewer than six thousand excluded funds have wound up. However, there is a long lag time on the submission of annual returns for these funds, and this figure may be an understatement of the actual number of wind-ups.

As might be expected, the number of members per fund is consistent across age ranges of funds, while the older funds hold a greater proportion of the assets. The rapid growth in excluded funds is clear when it is noted that over 40 per cent of these funds have been established within the three years prior to July 1997. See table 1.

Figure 1: Establishment of excluded funds

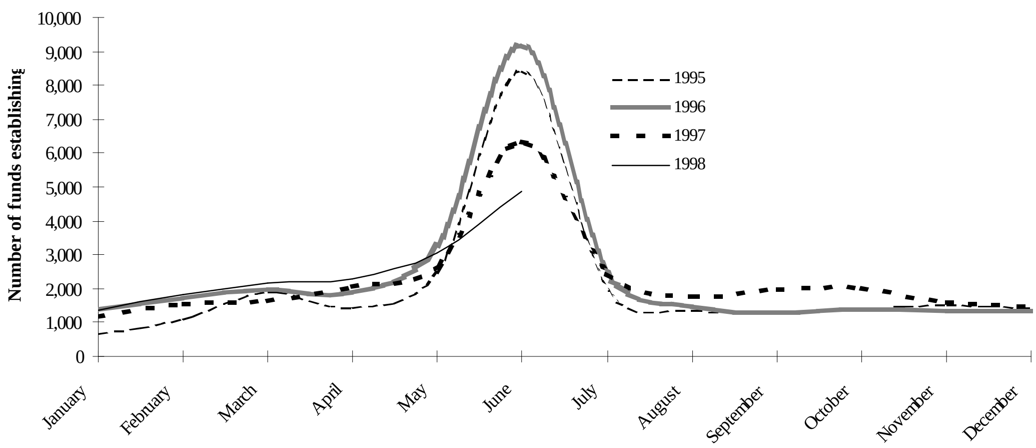


Table 1: Distribution of small self-managed funds

Age of fund (yrs)	Funds	Members	Assets
less than one	15%	14%	8%
one to three	33%	32%	25%
three to five	16%	16%	16%
more than five	36%	38%	51%

'Dormant' Funds

Some 12 per cent of excluded funds have not yet provided Annual Returns for 1996-97. Many of these funds are likely to be 'dormant' funds. Dormant funds are typically established by accountants to be available as shelf super funds. However, until activated they remain with no assets, members or income. The existence of these funds, combined with long delays in the submission of annual returns, makes it difficult to precisely determine the number of excluded superannuation funds at any one time. APRA is currently reviewing its treatment of these funds, which may lead to revisions in our assessment of fund numbers.

Members, assets, and costs

The vast majority (85 per cent) of small self-managed funds have only one or two members, with 15 per cent of funds having three or four members. See table 2.

An analysis of the 1996-97 Annual Returns indicates that, as expected, non-trustee members are most common in three and four member funds. Table 2 shows that around one quarter of these funds contain non-trustee members and, if this was left unchanged, would remain with APRA when supervision of the majority of small funds was transferred to the ATO.

Table 2: Small self-managed fund membership

Number of members	Funds	Proportion of funds where not all members are trustees
1	26%	17%
2	59%	10%
3	7%	25%
4	7%	26%
	100%	14%

Small self-managed funds enjoy significantly higher average assets per account than do members of other sectors of the superannuation industry. Note however, that while excluded fund members may typically only be a member of their own fund, other individuals, particularly industry fund members, may be members of more than one fund or hold numerous member accounts. See table 3.

In addition, excluded funds are typically created with a rollover or inward transfer from another fund. As member accounts with industry and corporate funds typically commence with a zero balance, a higher average account balance is to be expected in excluded funds. Anecdotal evidence also suggests that the age profile of excluded fund membership is skewed towards older ages by comparison with fund membership at large, with older members being expected to have larger account sizes than younger members.

Table 3: Average assets per account (June 1997)

Fundtype	Average account ($)
Excluded	$130,875
Public Sector	$42,918
Corporate	$37,941
Retail	$10,382
Industry	$3,722

Average assets per account for small self-managed funds have been increasing at around 12 per cent p.a. over the six years from 1992, indicating a steadily increasing average size of excluded funds.

In 1996-97 around 38 per cent of small funds had assets under management (AUM) of less than $100 thousand. While this proportion has been steadily declining, it is of significance as this figure is commonly regarded as the point below which the operation of an excluded fund is uneconmic. Further, there is a significant drop in the relative fund costs once a fund has more than $100 thousand AUM (from 6.3 per cent to 3.8 per cent). This may reflect an underestimation of the costs involved; however it reinforces the idea that the desire for increased control

Table 4: Fund size distribution

Sizerange$	1994	1996	1997	Administration costs per member	Total costs per member	Total costs as a proportion of assets
less than $100k	49%	43%	38%	$323	$1,508	6.25%
$100 to 200k	23%	22%	22%	$633	$2,865	3.82%
$200 to 300k	12%	12%	13%	$875	$3,887	3.09%
$300 to 400k	6%	8%	8%	$1,015	$4,674	2.70%
$400 to 500k	4%	5%	5%	$1,216	$5,677	2.59%
$500 to 600k	2%	3%	4%	$1,295	$6,602	2.47%
$600 to 700k	1%	2%	2%	$1,446	$7,163	2.35%
$700 to 800k	1%	1%	2%	$1,733	$8,183	2.41%
$800 to 900k	1%	1%	1%	$1,883	$8,888	2.25%
$900k to $1million	0%	1%	1%	$1,957	$9,495	2.25%
more than $1million	1%	2%	3%	$2,541	$14,705	2.07%
	100%	100%	100%			

over their assets leads individuals to discount the significance of any extra costs. See table 4.

This argument is supported by the fact that for 1996-97 only around 25 per cent of funds with less than $100 thousand AUM were 'new' funds which started in that year, and some 35 per cent were established prior to 1994-95. This indicates a deliberate intention to start an excluded fund with no expectation that the assets in it will rapidly climb to over $100 thousand.

While costs per member show a steady increase as fund size increases, most likely due to larger funds having more diverse and sophisticated investments or a more active investment strategy, in terms of proportions of assets, costs decrease with increasing fund size. Administration costs includes all explicit expenses of an administrative and investment management nature. The total cost figures also include taxation and other expenses but not benefit payments or transfers to another superannuation fund.

Asset Allocation

Over 85 per cent of excluded fund assets are managed directly by the fund. This is dramatically different to the figure of 16 per cent for non-excluded funds. In part this is because the smaller size of excluded funds restricts their ability to gain access to wholesale investment products. However, the figure also adds weight to the argument that the primary motivation of many people establishing excluded funds is an intention to exert increased control over their superannuation investments. Similarly, only slightly more than one per cent of excluded fund assets are placed in life office statutory funds, whereas the figure for assets in non-excluded funds is 35 per cent.

However, recent data collected from a small sample of funds by the ABS indicates that an increasing proportion of small fund assets are being placed with investment managers. See table 5. This may reflect the increasing size of small funds and their ability to access wholesale investments, but is most likely an indication of the success that fund managers who have particularly targeted this sector of the market have had in attracting money into their low cost PST products.

A further distinction between the investment structure of excluded and non-excluded funds is that only a negligible fraction of assets in excluded funds are

Table 5: Asset allocation by excluded funds

	1996	1997 [1]
Cash	31%	25%
Equities	26%	25%
Direct property	15%	8%
Units in trusts	15%	19%
Life policies	2%	1%
PSTs	4%	12%
Fixed interest	3%	3%
Other	4%	7%
	100%	100%

1. Source: ABS

directly invested overseas by the fund. In contrast, some eight per cent of non-excluded fund assets are invested in this way. However, this is essentially due to the relative size of excluded funds – the smaller non-excluded funds display similar characteristics in this regard.

Table 5 indicates a far more conservative approach to investment by excluded funds than that adopted by non-excluded funds. In particular there is a considerably greater emphasis on cash and property, and far less involvement with equities and securities. While both these figures and anecdotal evidence suggests that a gradual re-allocation of funds from cash to equities (through trusts and PSTs) may be taking place, this may simply reflect the growth of existing investments rather than an actual transfer of funds.

Transfers

The average inward transfer for a newly established fund was $78 thousand in 1996-97 (a 38 per cent increase on the equivalent figure for 1994-95). For a continuing fund the average figure was approximately $8 thousand (an 11 per cent reduction on the 1994-95 figure).

As might be expected, over 90 per cent of continuing excluded funds register only small inward transfers of less than $10 thousand. Newer funds show a higher proportion (23 per cent) transferring in (or 'rolling over') more than $100 thousand into the fund. This supports anecdotal evidence that many excluded funds are established with funds taken from previous superannuation accounts, after which point transfers become largely insignificant in the growth of the fund.

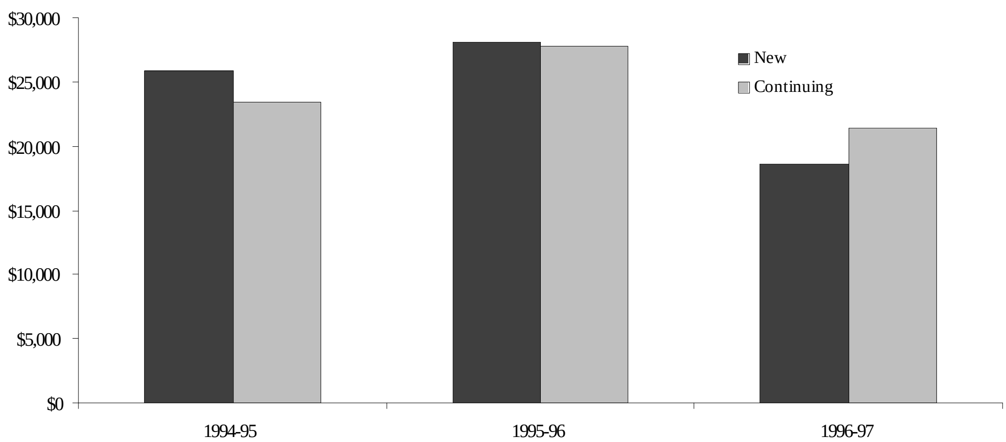
However, an even greater number of funds (56 per cent) are established with transfers of less than $10 thousand. While there are a number of other possible sources of fund equity, (such as redundancy payments, the sale of property, and other capital investments all of which might be used to build the assets of the fund) in many instances these may not be available or necessarily accessible, so that the establishment of an excluded fund represents a desire for direct control of the funds invested in superannuation - despite the possibility of higher administration costs.

As would be expected, outward transfers were only made by around one per cent of funds during 1996-97.

Contributions and benefits

The average of member contributions for a newly established fund was $28,420 in 1996-97 (a 134 per cent increase on the equivalent figure for 1994-95). For a continuing fund the average was approximately $7,241 (a 94 per cent increase from the 1994-95 figure). However, only 20 per cent of small self-managed superannuation funds in 1996-97 received any member contributions at all. This suggests that the majority

Figure 2: Excluded fund employer contributions



of small funds contributions arise from SG, salary sacrifice arrangements, or self-employed members contributing through their business.

The average of employer contributions per fund has displayed more volatility. Figure 2 shows how it has varied over the last three years. The majority of funds (74 per cent) receive contributions from employers.

Around 15 per cent of excluded funds received no contributions from members or employers in 1996-97. These funds are most likely holding rollovers, in a post retirement phase, or else may be run by small business owners who have chosen to direct any surplus monies into their business rather than their superannuation fund. The latter be a reasonable retirement savings technique on the grounds that income from the sale of a business can be capital gains tax exempt if it is used for the purposes of retirement income.

Only seven per cent of excluded funds made any benefit payments at all in 1996-97. As would be expected, around two thirds of the funds that made payments paid out over $100 thousand.

Investment returns

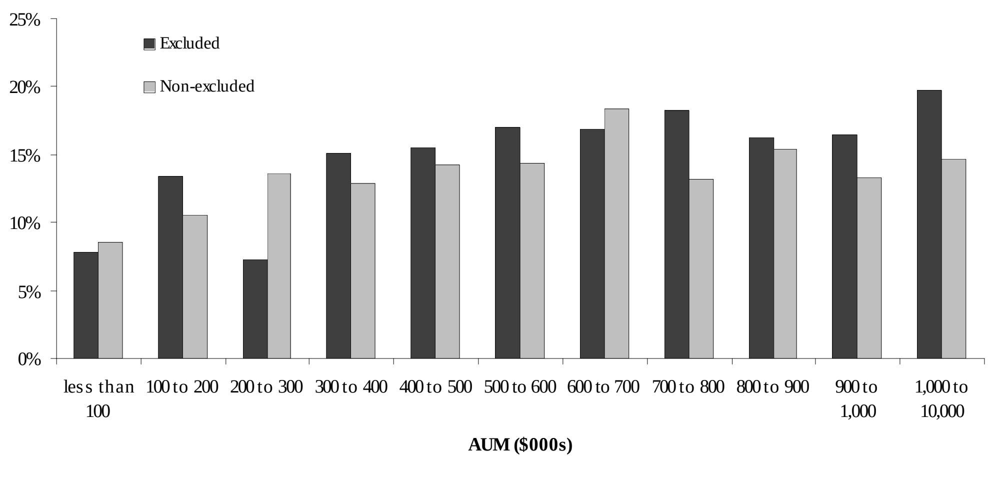
The average return on invested assets for excluded funds in 1995-96 was 13 per cent. In contrast to the experience of non-excluded funds it actually decreased in 1996-97 to 11 per cent. This is presumably a reflection, among other things, of an overall lower exposure to equities and a larger allocation to cash deposits.

Figure 3 shows the average investment return in 1996-97 by AUM for excluded funds and small non-excluded funds (being funds with less than $10 million AUM). The generally higher returns achieved by excluded funds in most asset brackets are in part driven by relatively lower administration costs as a proportion of AUM (most likely due to smaller membership numbers). In addition, the figures are not directly comparable, due to the different accounting standards of excluded and non-excluded funds. For example, excluded funds often use cost or book value rather than market value, and are not required to provide unrealised gains or losses.

In the case of the most dramatic difference however, for funds with between $200-300 thousand AUM, non-excluded funds recorded an average return of twice that of excluded funds. Indeed, the excluded fund result in this case is lower than that for funds with less than $100 thousand AUM. There is no associated peak in costs, and it may be that excluded funds of this scale are the most likely to pursue investments such as associated trusts, which are geared leading to short term decreases in investment returns.

Again, the significance of the $100 thousand AUM mark for excluded funds is demonstrated by the jump

Figure 3: Fund investment returns 1996-97



in average investment return for funds that exceed this size. Non-excluded funds of this size display a more even progression, possible reflecting the slower decrease in costs as a proportion of AUM.

Future Developments

The popularity of small funds continues to grow. In fact, the rate of growth in the establishment of new funds has been maintained over the first six months of 1998, notwithstanding the fact that June establishments in 1998 appear to be well down on June 1997 figures. It is likely that initiatives such as member choice of fund will only fuel this growth. While there would appear to be cost disadvantages in operating a small fund in some cases, particularly when AUM are less than $100 thousand, it seems that these are outweighed by the added control and flexibility afforded in running ones own fund.

It is unclear what impact the transfer of supervision of small self-managed funds to the ATO will have on the fund numbers. Previous changes to legislation have led to significant changes in small fund numbers. For example, the introduction of the OSSA legislation saw a large decrease in the number of small funds, while in contrast the introduction of the SIS legislation saw a large increase in their number (including larger funds restructuring to take advantage of the lesser regulatory requirements for excluded funds). This previous experience suggests that the industry may undergo some significant restructuring when excluded funds are transferred to the ATO. However it is too early to say whether it will lead to an overall increase or decrease in the numbers of these funds.

[1] The Government has announced its intention to transfer the supervision of self-managed funds to the ATO from July 1999. Under these proposals, in addition to having less than five members, fund members would be required to be associates or relatives and to be trustees of the fund. All other funds with less than five members would be required to have an Approved Trustee and would remain supervised by APRA.

Underwriting patterns in general insurance

The general insurance industry is extremely competitive, with insurers commonly paying out more in claims and expenses than they receive in premium income. In this article we examine the major underwriting patterns in the general insurance industry.

Since December 1978 private sector insurers inside Australia have been paying more out in claims and underwriting expenses than they have been receiving in premium revenue. That is, they have been making underwriting losses. However, during this time the industry has been making net profits due to consistent returns from investments, offsetting the losses in underwriting performance. See figure 1.

Consistent underwriting losses mean that general insurers are constantly relaying on good returns on their investments in order to maintain profitability. However, general insurers cannot invest predominantly in growth assets, unlike superannuation funds or life offices. Due to the inherent nature of the industry, having large numbers of short-term liabilities necessitates a high level of liquidity in their investment portfolio. Therefore, general insurers have a relatively high weighting of their investments in debt securities and cash and deposits. The effect of this conservative investment strategy by the general insurers can be clearly seen in the returns over the past 20 years for the Australian cash market (10.4 per cent) compared with the returns of the Australian equities (growth) market (16.2 per cent).

Currently there are 172 private sector insurers compared to 191 in 1978, indicating that continuing losses in underwriting and conservative investment strategies have not seen any great changes in the number of companies authorised to carry on insurance business in Australia. This relative stability in the net number of insurers suggests that long-term underwriting losses are sustainable in the Australian general insurance market and have been for the past two decades. However, Australia is not unique in this regard, with both the Canadian general insurance industry and the US insurance industry similarly showing premium revenue bring less than underwriting expenses and claims[1].

Private sector direct insurers

The underwriting ratio is the ratio of claims and expenses incurred to premiums earned. A ratio of 100 per cent indicates that claims and expenses have been equal to premium income. For example, an underwriting

Figure 1: Total Private Sector Results since June 1978

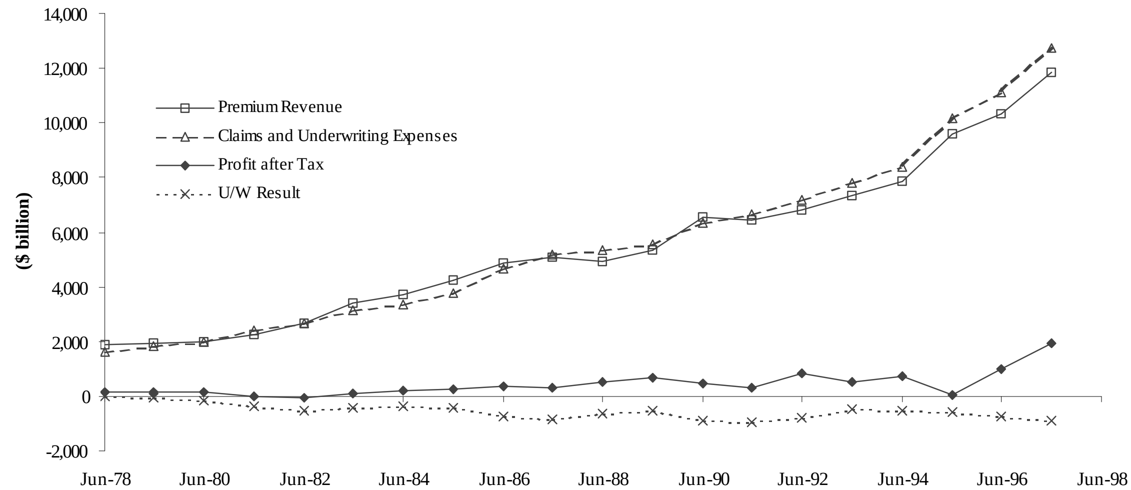


Table 1: Private sector direct insurers June 1997

Classes of Business	Underwriting result ($ millions)	Underwriting ratio (%)	Proportion of premium revenue
Employers' Liability	-185	138	4.5
CTP Motor Vehicle	-421	125	15.6
Public Liability	-119	114	8.1
Motor Vehicle	-228	106	34.6
Houseowners/Householders	-20	101	16.4
Other	19	98	7.8
Fire	24	97	7.6
Travel	5	96	1.3
Consumer Credit	5	95	1.1
Marine	38	88	3.0
Total	*-882*	*108*	*100.0*

ratio of 125 per cent means that for every dollar of premium earned the insurer is paying out $1.25 in claims and underwriting expense. The underwriting ratio for the direct insurers across all classes of business as at June 1997 was 108 per cent. See table 1.

Table 1 indicates that the highest underwriting losses for the private sector direct insurers are occurring in the classes of business that have the largest proportion of premium revenue. Another distinguishing feature of these classes is that although a policy may have a pre-determined explicit insurable amount, the final payment may be unlimited where it is determined through the juridical system. These classes include in particular Compulsory Third Party Motor Vehicle (CTP) and Employers' Liability, which as at June 1997 had underwriting ratios of 125 per cent and 138 per cent respectively. These underwriting ratios are in stark contrast to classes where there is no variation from the pre-determined explicit insured amount, for example Motor Vehicle and Houseowners/Householders. These classes of business have underwriting ratios of 106 per cent and 101 per cent respectively. As at June 1997 the classes of business making underwriting losses accounted for 86 per cent ($9.3 billion) of the premium revenue, 82 per cent ($2.4 billion) of the underwriting expenses and 92 per cent ($8.1 billion) of claims expenses.

The direct insurers that made an underwriting loss in June 1997 accounted for 86 per cent ($9.2 billion) of the premium revenue, 86 per cent ($31.8 billion) of the assets, 90 per cent ($7.9 billion) of the claims and 50 per cent of the companies. This result indicates that it is the large companies rather then the smaller companies that record underwriting losses. One reason for this may be that the larger companies have a greater asset base than the smaller companies and are therefore able to generate larger investment returns to absorb any underwriting losses than can smaller companies with less assets.

Foreign owned direct insurers have a slightly lower underwriting ratio (106.0 per cent) then the Australian owned direct insurers (109.6 per cent), however they account for a lower proportion of the industry. As at June 1997 foreign owned direct insurers represented 44 per cent of company numbers, 41 per cent ($4.4 billion) of the premium revenue, 39 per cent ($14.3 billion) of the assets and only 30 per cent ($264 million) of the underwriting losses. This would indicate that the foreign owned direct insurers are either more inclined to write business in the classes of business that are making underwriting profits or are less restricted by pricing competition for their insurance products.

Public sector insurers

The public sector is making the largest underwriting losses ($2.4 billion as at June 1997) in the general insurance industry, primarily due to the classes of business in which it operates. The focus for the public sector is in CTP and Employers' Liability (i.e. workers compensation) and together these classes account for 82 per cent ($4.5 billion) of the public sector's premium revenue and 97 per cent ($7.1 billion) of their claims, as at June 1997. In regards to these two classes of business the public sector has 67 per cent of the total industry premium revenue and 74 per cent of the total industry claims.

The public sector has been steadily consolidating over the past few years, mainly through privatisation, and now only represents only 31 per cent ($5.4 billion) of the total industry premium revenue and 43 per cent ($7.3 billion) of the total industry claims (down from 47 per cent of premium revenue and claims five years ago).

Reinsurers

Reinsurance is essentially the sharing of risk with other insurers or specialist reinsurers and can play a vital part in the continuing viability of insurers.

The reinsurers have also generally been making underwriting losses for the past two decades, with the exceptions of 1995 and 1996 (mostly due to a decrease in claims during 1995). See figure 2.

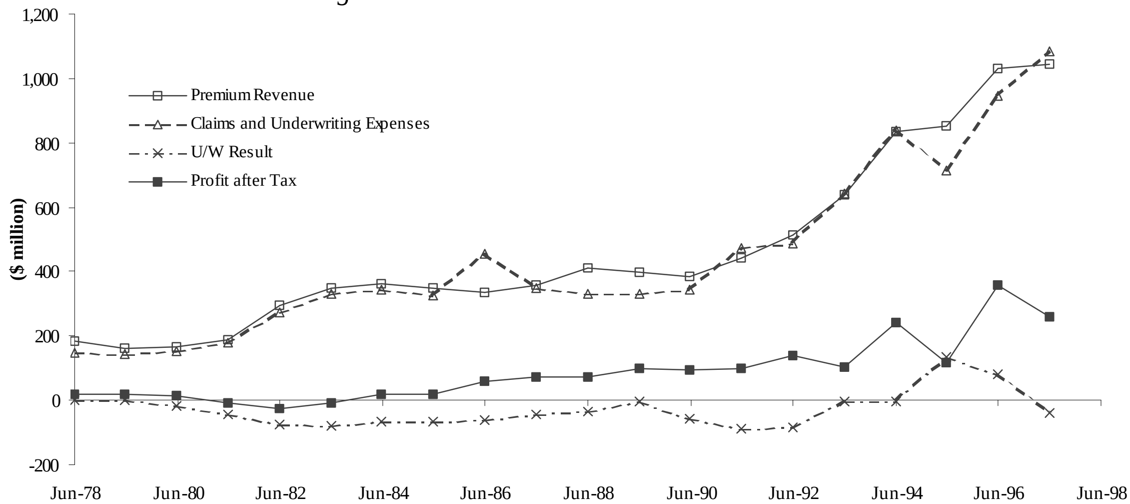
Similarly to the direct insurers and the public sector insurers, reinsurers have been relying on investment income rather than underwriting to make net profits. However, for reinsurers there appears to be a trend that companies will make an underwriting profit until their market share in premiums drop significantly enough so that the company will lower premiums and start making underwriting losses in order to recapture market share.

Future developments

Competitive pricing policies aimed at protecting market share would appear to have been one of the reasons for the continued underwriting losses experienced by general insurers. However, one factor that may have been assisting the profitability of general insurers over the past two decades is the sustained 'bull run' in the investment markets which has been in place since 1982 (notwithstanding the corrections of October 1987 and October 1997). With some commentators suggesting that the current uncertainty in the global markets may lead to the end of this long bull run, it remains to be seen whether consistent underwriting losses can be sustained if an extended 'bearish' period were to develop in the investment markets.

[1] NAIC Research Quarterly April 1998 and OSFI Summary of Financial Data 1997.

Figure 2: Reinsurers Results since June 1978



Update on Retirement Savings Accounts

Since 1 July 1997 banks, building societies, credit unions and life insurance companies have been permitted to offer superannuation without a trust structure in the form of Retirement Savings Accounts. In this article we look at the size and structure of the RSA market.

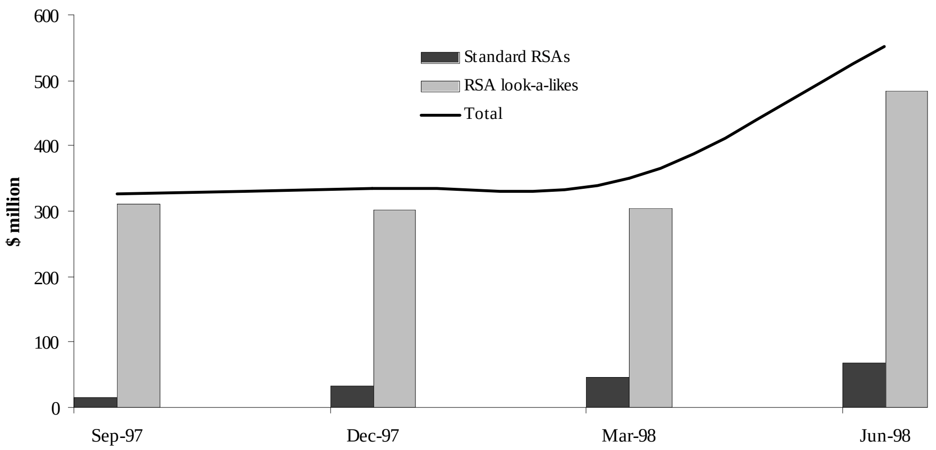
In essence, Retirement Savings Accounts (or RSAs) are deposits or life policies with a tax-advantaged, superannuation character. They are intended to be simple, low cost, low risk products that are easily accessible through the existing distribution systems of RSA providers. So as to provide competitive neutrality between RSA providers and traditional retail superannuation funds, public offer superannuation funds or sub-funds can also offer RSA 'look-alikes' under the usual trust structure. In order to do this, the fund or sub-fund must invest wholly in deposits with banks, building societies or credit unions, or in a capital guaranteed policy issued by a life company.

As at 30 June 1998, RSAs (including look-alikes) had around $551 million in assets under management (AUM), or around 1.4 per cent of total superannuation assets. However, this total is heavily weighted towards the RSA look-a-likes, which managed around $483 million (or 88 per cent) of all RSA assets, with the remaining $68 million being managed by standard RSA providers (that is, banks, building societies and credit unions). While the current level of $551 million represents an increase of 69 per cent on the $326 million managed by all RSAs as at 30 September 1997, this is mainly due to the restructuring operations of existing public offer funds whereby they have re-classified existing assets into RSA look-a-like products.

Characteristics of RSAs

A key characteristic of RSAs is that they are required to be 'capital guaranteed'. This means that for standard RSAs an account balance cannot be reduced by the providing institution crediting negative interest. Additionally, balances under $1 000 are subject to the usual 'member protection' standards and cannot be reduced as a result of fees and charges. An equivalent capital guarantee is provided by RSA look-alikes as the underlying assets in the fund or sub-fund must be invested wholly in deposits with banks, building societies, credit unions or in a capital guaranteed life policy.

Figure 1: Structure of the RSA market



Reflecting their simple, low cost and capital guaranteed nature, the point of sale disclosure rules for RSAs (both standard and look-alike) have been simplified. This has been achieved primarily by having a detailed specification of the items that must be included in RSA disclosure statements, and omitting the 'everything the investor reasonably needs to know' disclosure requirement that applies to collective investments generally.

The corollary to the capital guarantee provided by RSAs (that is, their lower risk) is that they are likely to have correspondingly lower investment returns. RSA crediting rates are typically comparable to bank term deposit rates. RSA providers are required to inform RSA holders of this 'lower risk/lower return' nature of RSAs as part of their disclosure obligations. Additionally, once an RSA account balance reaches $10 000, RSA holders must be advised of the need to assess whether alternative higher yielding investment opportunities may be more appropriate to their circumstances.

Structure of the RSA market

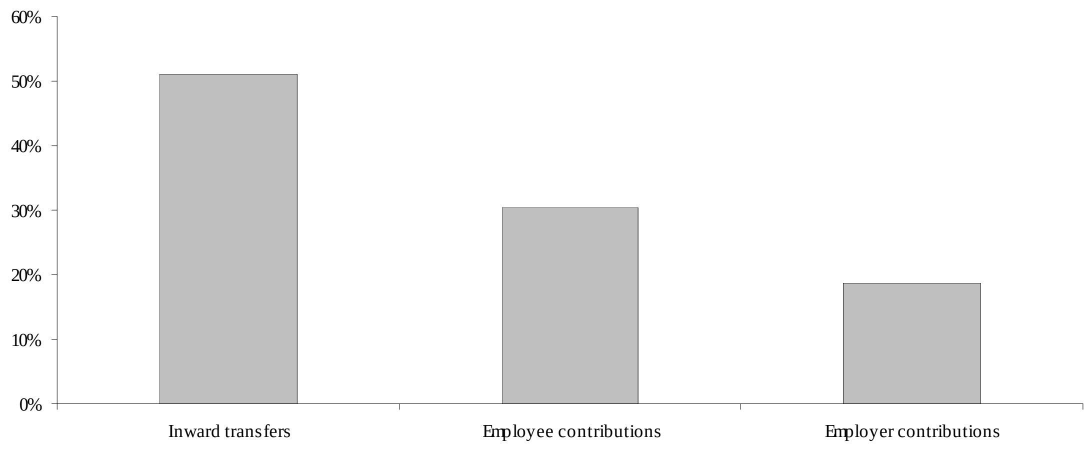
Currently nine institutions including banks, building societies, credit unions a life office have been given approval to offer RSAs. There are a further two prospective providers who have applied for approval. Based upon a survey of Approved Trustees conducted by APRA in July this year, there are currently three public offer funds and three public offer sub-funds offering RSA look-alikes. In this survey a further 25 Approved Trustees indicated that they are considering the introduction of an RSA look-alike product, suggesting that the look-a-likes may be larger in number in addition to being larger in terms of AUM than the standard RSA providers in the future.

The AUM of the standard RSAs has been consistently significantly less than for the look-a-likes. However, this is a reflection of standard RSAs having to start from a zero asset base as opposed to being able to re-classify existing assets as belonging to a look-a-like product. Notwithstanding this, whereas the AUM of look-alikes has increased since September 1997 by around 55 per cent (or $171 million) to $483 million as at June 1998, during the same time the AUM of standard RSAs has increased nearly five times (or $54 million) to around $68 million. See figure 1.

It is estimated that at June 1998 there were around 250 000 RSA account holders (in both standard and look-alike RSAs), with an average account balance of around $2 220. Standard RSA provider Annual Returns previously lodged with the ISC indicated that the vast majority (at 89 per cent) of RSA accounts had balances of less than $1 000, while only a small number (five per cent) of accounts had balances exceeding $10 000.

These figures suggest that the target market for RSAs is people with small amounts of superannuation and that RSAs may be of most use to workers who wish to amalgamate several small superannuation holdings

Figure 2: Deposits into RSA look-alikes, 1997-98



and for persons with broken working patterns, particularly women. Additionally RSAs may be suitable for those people nearing retirement who wish to minimise the immediate market risk on their superannuation savings.

Reinforcing this, whereas inward transfers usually represent around 35 per cent of all superannuation fund deposits (that is, inward transfers and contributions), for the RSA look-alikes inward transfers represent more than 50 per cent of all deposits. See figure 2. The relatively high level of employee contributions compared to employer contributions suggests that RSAs may also being used by self-employed and employees making ‘top up’ contributions.

Future directions

While the RSA market as a whole is currently exhibiting strong growth, the growth appears to mainly derive from restructuring within public offer funds to re-classify existing assets as belonging to RSA look-alike products. The significant number of Approved Trustees who have indicated that they are considering the introduction of an RSA look-a-like product suggests that growth due to this re-classifying could continue in the short to medium term.

However, at this time average RSA account balances are reasonably low and this, combined with the large proportion of account balances of less than $1 000 indicates that the market for RSAs is essentially people with only small amounts of superannuation.

RSA providers may therefore view their RSAs as feeder funds, from which they can direct customers into their associated higher growth superannuation vehicles once the customer’s account balance has reached a reasonable size (of around $10 000).

Life company ownership trends

In June 1998 there were 44 companies operating in Australia's life insurance industry, which collected around $32 billion in premiums during the year to June 1998 while making around $28 billion in policy payments during the same period. In this article we review some of the ownership trends in this major sector of the financial system.

Australia's $155 billion life insurance industry collected $9.0 billion in premiums in the June 1998 quarter ($32.3 billion in the year to June) while paying $7.4 billion in benefits ($28.4 billion in the year to June), making it one of the major sectors within Australia's financial system. Superannuation assets make up around $124 billion, or 80 per cent of these assets (up from 66 per cent in June 1992). However, this now represents only 34.7 per cent of total superannuation assets, down from 44.3 per cent back in June 1992.

In June 1998, there were 44 companies operating in the Australian life insurance market. For the purpose of this article the companies have been divided up into three ownership categories, bank owned, foreign owned and traditional. Bank owned are the subsidiaries of the Australian banks, foreign owned are those that are more than 50 per cent owned by foreign interests and traditional is the non-bank owned Australian life offices. It is interesting to note that over the past year there has been significant merger and acquisition activity with the consequence that there has been a reduction in the number of foreign owned companies. This can be seen in the concentration of the assets and premiums by the top four life companies, which hold 60 per cent of the assets and 39 per cent of the premiums as at June 1998.

Assets and premiums

Bank owned life companies are increasing their share of industry assets and premiums through organic growth. For example, as at June 1998 the banks had 15.3 per cent ($23.8 billion) of the total assets held by the life insurance industry (up from 13.9 per cent in June 1997) and received 30.6 per cent ($2.8 billion) of the total premiums (up from 28.6 per cent in June 1997). The bank owned companies have a strong focus on superannuation business, 85 per cent of their premiums for the June 1998 quarter were from superannuation business and 87 per cent of their assets.

In contrast, foreign owned life insurance companies have a stronger focus on ordinary life business than superannuation businesses. For example, their share of ordinary life premium was 39.1 per cent for the June 1998 quarter compared to only 26.3 per cent for superannuation business. However over recent months they have been targeted for acquisition by Australian owned life offices and the foreign owned companies share of the industry assets has fallen from 33.5 per cent ($49 billion) in June 1997 to 27 per cent ($42 billion) in June 1998.

Like the bank owned insurers the traditional life offices have a strong focus on the superannuation business. For example, 88 per cent of their premiums at June 1998 were from superannuation policies and superannuation assets now represent 79 per cent of their total assets. They have the largest share of total industry assets at 57.5 per cent (or $89 billion) at June 1998, however they have a slightly less of a share of the total premiums at 41.1 per cent.

Asset allocation

Asset allocation for the bank owned life offices varies significantly with that of the foreign owned and traditional life offices, in part due to a small number of specialist annuity and deferred annuity companies. The bank owned life offices have a heavier weighing toward interest bearing securities with 52 per cent of their assets allocated there, compared with 39 per cent for foreign and 32 per cent for traditional life offices. In contrast, equity investments represent only 18 per cent of the bank owned assets, compared with 24 per cent for foreign and 30 per cent for the traditional life office. This may reflect their banking roots, the type of products they specialise in and their market position. The bank owned life offices have a strong focus on non-traditional life products as 83 per cent of their total assets are in investment linked funds and this has been steadily increasing (up from 77 per cent in March 1997). The favour for defensive asset allocation (i.e. interest bearing securities and cash) may reflect a focus on a capital stable rather than a capital growth product mix. However when bank owned insurers invest off shore, 76 per cent of the total overseas assets go into equities and only 22 per cent into interest bearing securities, the remaining two per cent are solely in cash.

Reflecting a move away from traditional life insurance products into more growth focused investment products the traditional life offices have stronger weights towards property and equities then either the bank owned or foreign owned. In fact, the traditional life offices hold 73 per cent of all statutory fund assets invested in property and 64 per cent of the statutory fund assets in Australian equities. This may reflect the larger relative size in terms of assets of the traditional life companies and their consequent ability to invest a greater proportion of their portfolio in long-term growth assets. Like the bank owned insurers, the overseas investments of the traditional life offices favour equities, giving them weighting of 70 per cent, with 22 per cent in interest bearing securities (similarly to the bank owned companies) and the remaining eight per cent spread over property, cash and other miscellaneous assets classes.

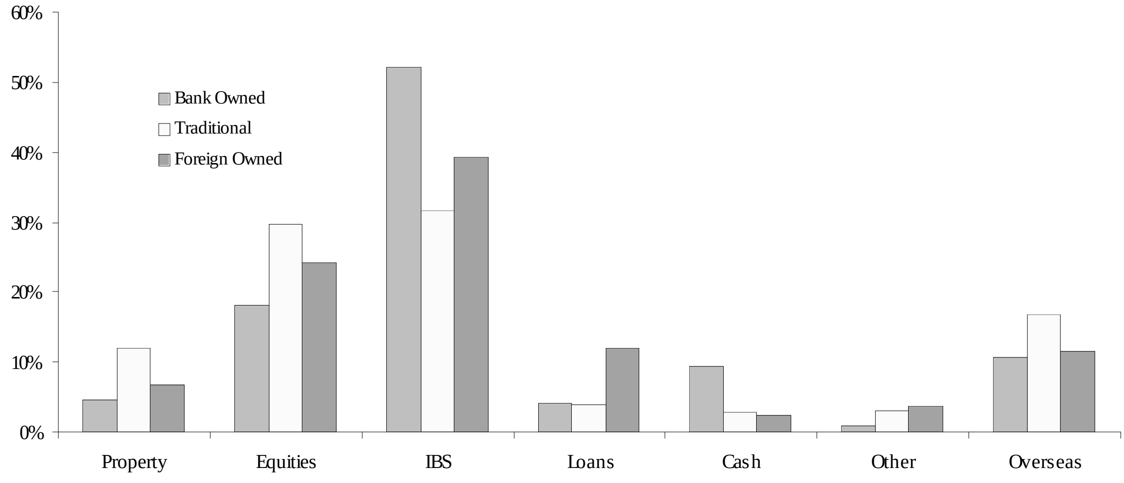
The foreign owned life offices appear to have a loans weighting up to three times that of the bank owned and traditional life offices at 12 per cent of their assets. However this is due solely to one company distorting the asset allocation. The overseas investments of the foreign owned life offices have a strong focus towards equities, at 65 per cent of overseas assets but this is not as strong as the traditional and bank owned companies. Interest bearing securities account for 28 per cent of overseas assets while the remaining seven per cent is spread over cash and other miscellaneous asset classes. This is most likely influenced by their parent companies asset allocation in the various overseas markets.

Further reinforcing the move away from traditional life insurance products into more growth focused investment products, the move away from non-investment linked or capital guaranteed funds is not restricted to the bank owned life offices, it can be seen across the whole of the life insurance industry. Currently 42.1 per cent of the total life office statutory fund assets are invested in non-investment linked (or capital guaranteed) funds, down from 54 per cent in June 1994. This decrease can be attributed to the life insurance industry focusing on superannuation business with 84 per cent of the total premium as at June 1998 coming from superannuation and the vast bulk of that in single premium business is placed into the investment linked funds.

Future directions

The strong merger and acquisition activity currently occurring in the life insurance industry has been attributed to the perceived need by companies to gain

Figure 1: Life company asset allocation June 1998



market share and realise economics of scale. This activity can be expected to lead to a number of companies redefining their strategic position to ensure their continued relevance either in their current form or after some change.

While superannuation continues to be increasingly important to life companies, the share of total superannuation assets placed in life company statutory funds has been steadily decreasing (at around one and a half per cent per annum) since June 1992. This may reflect some diversification by the major industry players, whereby funds under management are placed directly into their associated wholesale operations rather than being placed initially into the statutory funds like a life policy.

Superannuation survey highlights - June 1998

Main features

- Total superannuation assets had reached $359.4 billion by the end of June 1998, representing growth of 3.4% during the quarter, or 13.1% during 1997-98.
- The number of member accounts rose 2 per cent during the quarter and now stands at around 18.1 million.
- Contributions during 1997-98 were up 17.8% compared to the previous 12 months, increasing from $28.0 billion to $33.0 billion.
- Discounting the rapidly growing (self-managed) excluded fund sector, contribution growth for large funds rises to 19.1% per annum.
- The strongest growth continues to come from member contributions, increasing by 31% over the previous year to $12.9 billion. Employer contributions increased by 11% to $20.1 billion.
  - *there was no increase in the SG level from 1996-97 to 1997-98.*
- Weaker capital markets overall during the June quarter caused net earnings to be the lesser component of growth, accounting for 46% of net growth. Net deposits accounted for 54% of the growth during the quarter.

Industry structure

The assets managed by small self-managed funds (ie, excluded funds with less than 5 members) grew fastest during 1997-98, increasing by 23% ($7.8 billion). This was closely followed by industry funds which grew by 22% ($4.4 billion) during the last year.

Corporate fund assets grew by 9%, or $5.2 billion during the year. Public sector assets grew by 13% ($8.9 billion) and retail assets grew by 21% ($15.6 billion).

Retail funds currently hold around 25% ($90.6 billion) of total superannuation assets, public sector funds hold 22% ($79.9 billion), corporate funds 18% ($66.4 billion), excluded funds 12% ($42.3 billion), and industry funds 7% ($24.2 billion).

The excluded fund, industry fund and retail market segments all increased their market shares slightly during 1997-98, while that of the corporate funds and public sector declined marginally.

The proportion of the superannuation industry represented by the ‘ balance of statutory fund’ assets (which represents annuity products, fund reserves and unallocated profits of life office statutory funds) was 16% at June 1998.

The assets managed through Retirement Savings Accounts (including existing capital guaranteed superannuation funds deemed to be RSA look-a-likes) reached $551 million at June 1998. This is a growth of 69% ($225 million) since September 1997, however it has been mainly due to the reclassification of existing assets as belonging to an RSA product. The share of superannuation assets in RSAs remains around 1%.

Contributions and benefits

During the June quarter, employers contributed $5.8 billion into superannuation, up 13.8% on the 1998 June quarter. In contrast, the $3.7 billion which employees contributed into superannuation during the same period was up 26.8% on the previous June quarter. Overall, June 1998 quarter contributions were up 17.8% on the June 1997 quarter.

As the contributions into small self-managed funds were estimated to be only 9.7% higher in 1997-98 than the previous year, overall contribution growth is apparently being mostly driven by the membership of the large superannuation funds. Nonetheless growth in net contributions into small funds was 5.1% higher than in the previous 12 months, being largely fuelled by the growth in their number, eg. the number of excluded funds increased to 181 774 during the June quarter, (up 6%).

Inward transfers remained at their usual levels, accounting for 37% of all money deposited into superannuation funds during the June quarter.

Lump sums, excluding outward transfers, accounted for 76% ($4.1 billion) of the benefits paid during the June quarter. The remaining 24% ($1.3 billion) of benefits were paid as pensions. Outward transfers accounted for 46% of all fund withdrawals during the June quarter, similar in relative importance to inward transfers.

Benefit payments, excluding transfers, during 1997-98 were up by 18.6% compared to the previous 12 months (pushed up by a 20% increase in the level of pension payments). Despite the higher growth rate of benefit payments as compared to contributions, net contributions (ie., contributions less benefits) rose dramatically (16.3%) for 1997-98 compared to the previous year. During 1997-98 $11.8 billion in net contributions flowed into superannuation (compared to $10.1 billion in the previous year).

Manner of investment

Assets directly invested by trustees showed the strongest growth during the quarter, increasing by 4.8%. Assets placed with an investment manager and assets invested through the statutory funds of life offices both grew by 2.9%.

Investment managers had 38.8% ($139.4 billion) of total superannuation assets at the end of June 1998, fractionally down from 38.9% at June 1997. The share of directly invested superannuation assets increased 1.9% to 26.6% ($95.4 billion), with the statutory funds of life offices continuing to steadily lose share, reaching 34.7% ($124.5 billion) of total assets.

Asset allocation

The share of superannuation assets invested overseas rose slightly to 16.5% ($59.2 billion) at the end of June 1998, up $3.5 billion. However, the AUD depreciated against both the TWI and the US dollar (involving around half of overseas investment) during the quarter (by 2.9% and 7.5% respectively) acting to automatically increase the AUD value of overseas investments. This suggests that there was most likely little net outflow of assets overseas during the quarter.

Superannuation investment held in equities and units in trusts increased by 0.7% ($0.9 billion) during the June quarter. Measured against the 2% decrease in the ASX accumulation index in the June quarter, this indicates a likely net increase in assets invested in equities markets by superannuation funds.

However, superannuation equity and trust holdings overall decreased to 36.8% of total superannuation assets (from 37.7%).

Reflecting an increase in short term bond yields during the June quarter (but despite a decrease in long term bond yields), holdings of interest bearing securities increased by 2.9% ($2.4 billion). The proportion of superannuation assets held as interest bearing securities declined 0.1% to 23.8%.

Holdings of cash, deposits and placements increased by 14.8% ($3.6 billion) in the June 1998 quarter (the vast majority of the increase being in cash and deposits). They now represent 11.8% of the total value of superannuation assets.

These movements would appear to indicate that while superannuation funds were net buyers of Australian equities and interest bearing securities during the June quarter, there was a larger increase in the funds held in cash or deposits.

This result suggests a somewhat more conservative investment strategy by superannuation funds whereby allocations to cash and deposits were increased, primarily reducing the proportion of funds in equities. This may indicate that trustees are positioning themselves to take advantage of potential opportunities in the volatile equity market.

The value of assets held in direct property fell slightly in the June quarter to 7.3% of total superannuation assets at the end of the quarter, from 7.5% in March 1998. Other investments account for around 4% of total superannuation savings.

Superannuation survey methodology overview

Results of the APRA Quarterly Survey of Superannuation are combined with estimates of other industry components to provide timely and comprehensive estimates for the total superannuation industry. This paper explains the methodology behind these estimates.

The APRA Quarterly Survey of Superannuation (the Survey), a joint APRA and ABS initiative, was introduced in 1995. Results from the Survey are combined with other APRA estimates to provide total aggregates for the superannuation system. These estimates are publishedquarterly in this Bulletin.

APRA estimates for the superannuation funds and ADFs outside the scope of the Survey fall into the following two categories:

- medium size superannuation funds and ADFs not included in the Survey; and
- small self-managed superannuation funds (excluded funds[1]).

The Survey

The Survey currently collects information from the largest 365 superannuation funds in Australia, representing around 80 per cent of total (excluded and non-excluded) superannuation assets. The cut-off test for inclusion in the Survey, which is reviewed annually, is more than $60 million in assets under management.

A cut-off threshold was selected as the preferred method due to the highly concentrated nature of the superannuation industry. For example, as at June 1997, in addition to covering 89 per cent of superannuation assets in non-excluded funds, the 365 funds in the Survey also accounted for:

- 91 per cent of members;
- 91 per cent of contributions;
- 91 per cent of benefits; and
- 94 per cent of gross transfers.

Medium size super funds and ADFs

There are currently around 4 200 medium sized funds (predominantly small corporate superannuation funds and small approved deposit funds), representing approximately 8 per cent of assets and 8 per cent of members. In terms of overall industry aggregates (e.g. assets), these funds are collectively the smallest industry sector.

Estimates for this sector are obtained by extrapolating the Survey results to obtain a value for total large and medium sized superannuation funds and ADFs. The actual size of the extrapolation varies from variable to variable depending upon the relative concentration of the variable in the Survey funds. These concentration ratios are based on previous APRA annual return data, which covers the entire population of regulated superannuation funds.

The proportion of the directly invested assets of these funds invested overseas is obtained from annual return data. The remainder of their directly invested assets is allocated into asset classes using the proportions they hold of Survey fund assets.

Small self-managed super funds (excluded funds)

Excluded funds are outside the scope of the Survey. Although excluded funds currently comprise 97 per cent of all regulated funds, they account for only one per cent of members and were therefore not considered appropriate for inclusion in the survey.

Data describing the characteristics of excluded funds are sourced from past APRA audited annual return information, the SIS Statistical Questionnaire[2], a survey of excluded funds conducted by the ISC in

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[1] An excluded fund is defined by the Superannuation Industry Supervision (SIS) Act as a superannuation fund with less than five members.

1997 and anecdotal evidence from industry practitioners.

These sources are the basis for identifying three very important defining characteristics of excluded funds that shape the sector's input into total industry aggregates:

- *equity per member* - excluded funds have significantly higher average equity per member than other superannuation funds.
- *propensity to directly invest in the market* -the decision to establish an excluded fund is often based on an intention by individuals to exert increased control over their superannuation investments. This control is illustrated by the fact that 85 per cent of excluded fund assets are directly invested in the market, with only 15 per cent invested through investment managers and life offices. This compares with 26 per cent directly invested for all other superannuation funds. The high degree of direct investment by excluded funds is also consistent with the fact that excluded funds acting individually have limited market power to gain cost effective access to wholesale investment products[3].
- *contributions per member* - excluded funds have extremely high contribution rates per member.

Importantly, analysis of the 1994-95 and 1995-96 ISC annual return information indicates that current excluded funds have essentially the same broad characteristics as excluded funds in the pre-SIS environment. This is also supported by anecdotal evidence from industry practitioners and other industry surveys. While the broad characteristics, such as high equity per member, propensity to directly invest and high contributions per member, have remained the same, there has been some change in emphasis in newly established funds[4]. The ratios for excluded funds will continue to be revised in line with annual return data and other industry information.

Notably, APRA has been conservative in estimation of excluded fund aggregates, recognising the inherent error margins associated with interpolating quarterly data from annual return information. An example is the estimation of the number of excluded funds. The Survey methodology assumes that 10 per cent of excluded funds operating at a certain date either wind-up within a year of that date or are dormant[5]. These assumptions are based on ISC excluded fund annual return information and are revised on an annual basis. It is therefore possible that excluded fund aggregates derived using the Survey methodology are lower than the actual totals.

Another conservative assumption concerns the method used to calculate the average investment return for excluded funds. The investment return calculation is a weighted average of index returns (eg ASX Accumulation Index) based on the average asset allocation of excluded funds. One of the results of this method is that 25 per cent of excluded fund assets are assumed to increase only with CPI.

In the presentation of directly invested assets by asset class, previous ISC surveys of excluded funds are used to apportion the directly invested assets of these funds.

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[2] The SIS Act was enacted in 1993. When funds elected to become regulated under the SIS regime they were asked to complete short statistical questionnaire to provide the ISC with selected statistics of the fund as at June 1994.

[3] Some investment managers are however beginning to respond to the developing excluded fund market by tailoring retail investment products that more closely match the fee structures of the larger wholesale investment industry. It is likely that these products may encourage greater indirect investment by excluded funds in the future.

[4] These differences are outlined in the article *"ISC Bulletin and Annual Return comparison"*, ISC Bulletin, June 1996.

[5] A dormant fund is a fund that has been established but has had no income or expenditure and has zero assets

Life Act superannuation

Life Act superannuation refers to superannuation products sold directly from life office statutory funds (eg deferred and immediate annuities) that are regulated solely under the Life Act. The scope of the Survey includes, subject to the Survey threshold criteria, all superannuation and approved deposit funds outside life offices and virtual funds[6] within life offices, but excludes superannuation investment products sold directly from statutory funds. However, the APRA figure for total superannuation assets includes Life Act superannuation, as superannuation assets in life office statutory funds (including Life Act superannuation) is captured by APRA Life Office statutory returns.

The components of the industry are summarised in Figure 2.

Estimation of total assets

The calculation of total superannuation assets is achieved through merging the Survey data and APRA data for life office statutory fund superannuation assets with data from the ABS Survey of Balance Sheet Information (SOBSI), which is a quarterly asset survey of investment managers. The SOBSI survey and Life Office statutory returns together measure superannuation assets invested in pooled investment instruments and products. Data describing the directly invested assets of Survey funds, and the directly invested assets of medium sized funds and excluded funds, is combined with the pooled asset results to produce the estimate for total superannuation assets.

Fund type

The fund type categorisations used reflect the functional or economic (as opposed to legal or regulatory) segmentation of the market.

They include Corporate, Industry, Public Sector, Excluded and Retail.

Corporate funds are sponsored by a single non-government employer, or group of employers.

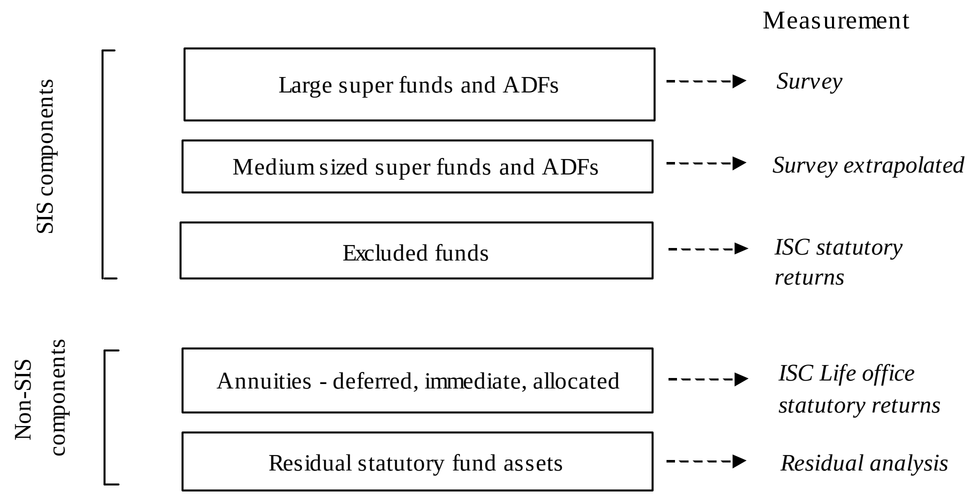
Industry funds are those established under an agreement between the parties to an industrial award.

Public sector funds are sponsored by a government employer or government controlled business enterprise.

Excluded funds are superannuation funds that have less than 5 members (also known as the self-managed, DIY or ' mum and dad' funds) and single member ADFs.

Retail funds are pooled superannuation products sold commercially and competitively through intermediaries, including master trusts and personal superannuation products.

Figure 2 - Components of the Superannuation Industry



The Balance of statutory funds is the remaining superannuation assets residing in life office statutory funds, after the assets explicitly known to reside in the other fund types have been allocated.

Retirement Savings Accounts (or RSAs)

As part of APRA's continuing effort to provide a comprehensive understanding of the superannuation industry, figures are now produced for the assets placed with Retirement Savings Accounts (RSAs). These figures include both assets with RSAs established under the RSA Act (or standard RSAs) and those in public offer superannuation funds that have been deemed to be RSAs (RSA look-a-likes). Information on RSAs is sourced where available from existing APRA data collections as well as directly from the provider when necessary.

Reporting basis

Participants in the survey are requested to follow, as far as possible, the Australian Accounting Standard AAS25 and to report assets at net market valuation.

Net market value refers to the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal. Respondents to the ABS SOBSI survey are also requested to report assets at their market value.

Data quality

The Survey has been running for nearly three years and the statistics contained in the Bulletin may be considered robust. Due to accounting difficulties with identifying fees and charges, net earnings rather than detailed income and expense results are published in this Bulletin.

The total superannuation asset figures do not include any provision for the unfunded superannuation liabilities of Australian governments to public sector superannuation funds. However, the total asset figures do include the assets of some public sector superannuation funds that are exempt from direct APRA supervision but are captured by the Survey.

The new survey form introduced in the previous quarter has highlighted some data reporting problems with the survey forms previously used which in turn has necessitated some revisions in this publication to previously published data. While the data collected in the redesigned form is comparable with the previous statistical series, some compositional aspects are currently under investigation and this could lead to revisions to the published data in future editions of the Bulletin.

Revisions

This Bulletin contains revisions to previously published statistics. The Survey is recalibrated each year based on annual return data. As this data is obtained in arrears it will lead to periodical revisions of the back series. Where figures have been rounded, discrepancies may occur between sums of the component items and totals.

Comparability with other superannuation statistics

There are major methodological differences between how directly invested assets are measured by the APRA Quarterly Survey of Superannuation from June 1995 and previously published ISC or ABS superannuation asset data.

However, to assist users of superannuation statistics, the ABS includes estimates for the increased directly invested component of superannuation funds and ADFs for quarters prior to June 1995 in 'Managed Funds' (Cat. 5655.0). These estimates are also included in the directly invested assets and total assets tables in the Bulletin. The estimates have been based upon a historical analysis of ISC superannuation annual return statistics and ABS National Account statistics.

Unpublished statistics

A wide range of information, collected via the APRA Quarterly Survey of Superannuation and APRA Annual Returns is available from APRA on a fee for service basis, subject of course to strict privacy constraints (a data request form may be found at the end of this Bulletin).

More information regarding investment managers is available on request from the ABS.

APRA Speeches

APRA and the new world of financial regulation

Speech made by Graeame Thompson, Chief Executive Office, Australian Prudential Regulation Authority, to Committee for Economic Development of Australia, Brisbane 27 August 1998

I am very pleased to be able to address you today as the CEO of the newly-formed Australian Prudential Regulation Authority - APRA.

The new APRA was born on 1 July, only 8 weeks ago.

In a general sense, we owe our birth to the widely held view that the responsibilities for regulating Australia's financial system could be organised more logically and efficiently.

More directly, APRA springs from Recommendation 31 in the Wallis Committee's 1997 report, which said that: "A single Commonwealth agency … should be established to carry out prudential regulation in the financial system".

Prudential regulation

As you know, prudential regulation is that type of financial regulation which is directed to reducing the likelihood of a financial institution becoming insolvent, with consequential losses to depositors, investors or policyholders depending on the financial institution involved. It is concerned fundamentally with the quality of a financial institution's risk management systems, and (in most cases) with the adequacy of its capital as a buffer against loss.

Since no system of prudential regulation is fail-safe, another critical role of the prudential regulator is to resolve the position of financial institutions which have become unviable in such a way that the interests of their depositors and policyholders are protected to the maximum extent. APRA has extensive powers of investigation, intervention and administration for this purpose.

As the comprehensive prudential regulator in the Australian financial system, APRA has taken over the responsibilities:

- of the Insurance and Superannuation Commission (ISC) for supervising life and general insurance companies, and for superannuation funds; and
- of the Reserve Bank for supervising banks.

It is planned that later in 1998 we will also take over the regulation of building societies, credit unions and friendly societies. This is currently conducted by the Australian Financial Institutions Commission (AFIC) and the various State supervisory authorities, such as QOFS.

Our direct responsibilities will, consequently, cover around 85 per cent of the assets in Australia's financial system. The main groups for which we will not have regulatory responsibilities are merchant banks, finance companies and non-superannuation investment funds.

Along with prudential regulation responsibilities of the ISC and Reserve Bank, APRA has acquired their relevant staff - about 450 people in all. With the transfer of State regulation, another 90 or so people will join us.

How will things be different under APRA?

I think differences will arise in two broad ways:

- first, from having the one regulatory agency, rather than the previous several;
- second, from some new powers which APRA has - powers which could, in principle, have been incorporated into the old regulatory framework.

I will deal quickly with the second area and then return to the more interesting first.

The main field where APRA's powers have been expanded, compared with the previous regime, is in relation to banks. In contrast with the Reserve Bank's former powers over banks, APRA has:

- the power to issue and to revoke banking licences;
- the statutory power to make (non-enforceable) prudential standards, as well as to have regulations made under the Banking Act;

- the power to issue enforceable directions in relation to these standards and a wide range of other matters - this strengthens APRA's capacity for early intervention in problem cases;
- clearer powers to address the situation of a bank in serious difficulty - to appoint an investigator or administrator, or for APRA itself to take control of such a bank;
- the power to arrange for the winding up of a bank and the distribution of its assets, with Australian depositors (as in the past) having first claim on its Australian assets.

APRA also has the power to license and to regulate non-operating holding companies (NOHCs) which own banks and other deposit-taking institutions. This introduces a new dimension to the prudential regulation of financial groups, a point to which I will come back in a moment.

Let me turn now to those changes which should flow from having a single prudential regulator. At the risk of over-simplification, I think these will fall under four heads.

(i) *More consistent regulation of similar financial risks wherever they occur.*

This will be evident most clearly in the single licensing and regulatory regime which APRA will administer for all deposit-takers - banks, building societies and credit unions. But there could also be opportunities for greater harmonisation of prudential standards, such as capital adequacy, between deposit-takers and insurance companies. And there is no good reason why the same techniques for supervising operational risk cannot be applied to banks, insurance companies and superannuation funds. Greater consistency in prudential requirements will reduce opportunities for regulatory arbitrage and contribute to achieving that mythical "level playing field".

(ii) *Readier accommodation of structural change in the financial system.*

Although I can't think of outstanding practical examples at present, it is clearly possible that a natural tendency for "turf protection" by specialised regulatory agencies could get in the way of desirable reorganisation and innovation in financial markets. This should be less of a risk with a single regulator.

(iii) *More efficient and effective regulation of financial conglomerates.*

Increasingly, in recent years we have seen the emergence of conglomerates which have within them significant-sized entities answerable to different, specialist regulators. APRA should reduce the number of regulatory contact points for such conglomerates. It will also be better placed to make an assessment of their overall financial position, to see where incipient weaknesses in one component might threaten the viability of others and to take action to guard against this. We will also aim to rationalise statistical collections from such groups.

(iv) *More effective utilisation and management of scarce supervisory resources.*

Australia's limited supply of skilled supervisors has been scattered among several agencies. Bringing these people together in APRA will allow us to use them most efficiently at the points where they are most needed, where the risks are greatest - which can, of course, change from time to time. It will also maximise opportunities for the cross-fertilisation of their different experiences, skills and ideas.

If we manage things well, the upshot of all these factors should be more effective prudential regulation, at lower cost. Too good to be true? The proof of the pudding will be in the eating, but they are certainly our objectives.

I should also say a word about a couple of things APRA *won't* bring…

One-stop financial regulation?

First, APRA won't be the one-stop, all-encompassing financial regulator which some commentators who haven't read the Wallis Report seem to expect.

APRA will not be responsible for disclosure standards, dispute resolution and other aspects of consumer and investor protection - these functions fall to the Australian Securities and Investments

Commission (ASIC), the new expanded version of the ASC. Nor is APRA responsible for payments system regulation - this remains with the Reserve Bank, as part of the central bank's responsibility for the overall stability of the financial system. And APRA is not responsible for competition and merger policy, which remain with the Government and the ACCC.

The new regulatory structure - which was proposed by the Wallis Committee and which has been adopted by the Government - is based on a functional arrangement of responsibilities. This means one regulatory authority for each of the main areas of financial system regulation. It is a tidier and more logical system than what we've had in the past. But in practice financial institutions will still need to deal with several regulators, and there will remain a good deal of overlap in the interests of the various agencies.

To illustrate this, a bank group with a funds management arm will need to deal with APRA as the bank supervisor, the RBA on its payment system activities and with ASIC on investment disclosure and consumer protection issues in relation to its funds manager. If the funds manager offers superannuation products, both APRA and ASIC will have an interest - APRA in how the trustees are managing the funds entrusted to them and ASIC in the flow of information from trustees to members. And, of course, this group would need to talk to the ACCC if it wishes to acquire another bank.

Clearly, good communication and close working relationships among these various agencies will continue to be very important. For those of us putting the new framework into place, this is another of our key objectives. APRA has established standing committees with both ASIC and the Reserve Bank to ensure efficient communication and maximum co-operation. All three agencies get together in the Council of Financial Regulators. Furthermore, the Reserve Bank and ASIC are represented on APRA's Board.

New entry?

We might also need to hose down expectations that the advent of APRA means open slather for new entry to the banking system.

I believe that the new regulatory framework will increase competition and efficiency in the financial system by making entry more readily available to some new players.

But this will not occur through any relaxation of the prudential standards for entry to banking. As the licensing agency, APRA will not be watering down the existing standards for the quality of management and risk control systems, and for capitalisation in banks and other deposit-takers. Furthermore, the general presumption in favour of dispersed ultimate ownership of banks and other deposit-takers will remain. Individual shareholdings above 15 per cent will still need to pass a national interest test, whether at the level of the bank itself or of a non-operating holding company (NOHC) which owns a bank.

As I noted earlier, the advent of licensed and regulated NOHC's is one of the key new elements in Australia's regulatory arrangements.

Permission for banks to be owned by NOHC's has not been generally available in the past. For some financial groups this structure may be a more attractive one for management efficiency or other reasons. And the acceptability of this structure will, in principle, make it easier for groups with non-financial interests to include banking among their activities. The Wallis Committee talked of a 'demonstrable congruity' test for deciding which, and to what extent, non-financial activities might sit alongside a bank in a conglomerate under a NOHC. (The Federal Treasurer referred to cases 'where financial products can be logically bundled with a supply of non-financial goods and services'.) One can think of other criteria which would be relevant too.

The APRA Board is turning its mind to a policy on the mixing of financial and non-financial business as an early priority.

I expect that this potentially greater flexibility in the structures of financial groups will contribute to increased competition in Australia's financial system in coming years.

Transition

Simply putting APRA together presents some fascinating managerial and logistical challenges.

By the beginning of 1999 we will have inherited eight groups of staff, each with its own employment terms, its own skill sets, culture and history. These groups have to be welded into a single, motivated workforce with consistent employment conditions and a common supervisory ethos. The task will be complicated by the geographic dispersion of these people - the key policy skills alone are now spread between Sydney, Canberra and Brisbane. We will also have offices in Melbourne, Adelaide and Perth. An industrial relations/human resources delight or nightmare, depending on your perspective!

While sorting through the logistics of all this, we need also to make sure that nothing "falls down a crack". The last thing APRA needs in its early years is a financial disaster. For this reason I am pleased that, while there have been some staff losses, we have retained most of the key supervisory people from the ISC and RBA.

And, importantly, we will continue with all existing supervisory policies for the time being.

What sort of regulator?

What sort of prudential regulator will APRA be?

My aim is an approach which strikes a sound balance between the need to minimise risk of loss to the people entrusting their savings to licensed financial institutions - which is APRA's main raison d'étre - and a recognition that overly intrusive and prescriptive regulation can get in the way of desirable innovation and structural change in the financial system.

I fully support that provision of the APRA Act which says:

> "In providing this (prudential) regulation and developing this (prudential) policy, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality."

In other words, safety is very important but the community needs a financial system with other qualities as well.

In pursuit of this charter, APRA aims to be a highly professional, forward-looking and enlightened regulator. We will keep in close touch with new developments in financial markets - including through on-going interaction with industry and consultation on particular prudential policies. Genuinely open, two-way communication with industry will be a very high priority.

We will also have strong international links, both with other supervisors and with the international associations of regulators.

And we will start out with a strong analytical and research capacity, drawing on staff from the Reserve Bank, ISC and AFIC. I plan to strengthen that capacity further.

Finally, I should emphasise that APRA will also have a policy of decisive action in response to breaches of prudential standards. I don't want APRA to stand accused of "regulatory forbearance", as agencies in other countries have in recent years.

End piece

I will conclude by saying that I think Australia's financial system has, by and large, been well served by its regulatory arrangements. This assessment has only been confirmed recently by a comparison with the situation of many other countries in our region.

In prudential supervision, APRA's challenge is to build on the strengths of the agencies whose responsibilities and staff we inherit. And to move forward with our financial system into the next century, adapting our supervision to the evolution and changing shape of that system. Considering the likely pace and range of that change, this is an exciting challenge!

My ambition is to build APRA into a respected, professional world-class prudential regulator - an agency which will promote confidence in Australia's institutions and thereby contribute to the growth, efficiency and diversification of our financial system.

I welcome CEDA's interest in this task and look forward to its support in the years ahead.

The New Regulatory Framework

A speech presented by Keith Chapman, Chief Manager Superannuation, at the AIC Conference on Member Choice of Superannuation Fund, Sydney, 31 July 1998.

Thank you Mike and good morning ladies and gentlemen.

I almost feel that I am here under false pretences because I am not going to talk directly about the topic outlined in your conference agenda.

As you will all now be aware, the legislation introducing Choice of Funds has not yet passed Parliament and, accordingly, there are no disclosure requirements set in concrete.

In addition, from 1 July, we saw a fundamental change in the regulation of the financial services industry in this country.

Accordingly, today I will talk to you about the new superannuation regulatory framework, which has arisen following the Wallis Inquiry.

I am going to cover:

- the Wallis reforms;
- the splitting of the ISC functions between APRA and ASIC, and how this is intended to work;
- some of the major challenges facing APRA; and then finish with
- some comments on the Superannuation industry.

The rationale and goals for reform coming out of the Wallis Inquiry were:

- to help obtain for Australian consumers and industry the potential benefits of new technologies and world's best practice in the financial system and maximise the international competitiveness of our financial services industries;
- to better focus regulation according to its underlying objectives and ensure that it applies in a competitively neutral way across the newly emerging market structures; and
- to promote greater competition to achieve greater efficiency across the spectrum of financial and payment services.

Wallis has given us a 'Triple Peak' model of regulation for the financial system in the form of an upgraded central bank, a new prudential regulator, and a rebadged corporations and consumer agency.

First, the Reserve Bank will have its central banking role upgraded, and will continue to have sole regulatory responsibility for monetary policy, the payments system and overall stability of the financial sector. However, the Reserve Bank will lose its present role of prudential supervision of licensed banks.

Second, a new agency - the Australian Prudential Regulation Authority, or APRA for short - will be responsible for prudentially supervising banks, non-bank financial intermediaries, life and general insurance companies, and superannuation funds.

And third, the ASC will be rebadged as the Australian Securities and Investment Commission (or ASIC), with responsibility for company regulation and for financial market integrity, conduct and disclosure.

The Council of Financial Supervisors is being reconstituted as the Council of Financial Regulators, or COFRS (sounds like it will have access to much money), and it will facilitate cooperation and collaboration between the 3 financial regulators.

There will also be the non-statutory Financial Sector Advisory Council, which is designed to facilitate the flow of views between the private sector and the Government, and to provide advice on financial sector developments and policies.

Wallis also recommended that excluded or 'self managed' super funds did not need prudential regulation as long as they did not contain arms length members and the Government recently announced in the budget that from 1 July 1999 the ATO will be responsible for these funds. This will leave APRA to prudentially regulate corporate super funds, public offer funds and small funds where the trustee is an approved trustee.

Apart from these changes for 'self managed' funds it is expected that most of the changes will come into effect from 1 July this year, when APRA and ASIC come into being. APRA will be headquartered in Sydney, although for the first year or so of its existence, the ISC staff who will transfer to APRA will remain where they currently are, doing mostly what they currently do.

I will shortly outline the 'past' ISC functions which now reside with APRA and ASIC however, it is also important to realise that some ISC functions have been transferred to the Commonwealth Treasury.

These relate to amendment of ISC administered Acts and legislation and to the legislative implementation of Government policy decisions.

Previously the ISC had a 'Policy' Branch comprising some 15 staff - a number of these have moved to Treasury, a number to the Policy and Research Division of APRA and a number remain within the Insurance and Superannuation Division of APRA.

APRA has retained the responsibility for recommending to Government, changes to subordinate legislation (eg Commissioner's rules under the Life Act, regulations under SIS etc) which result from supervisory experience (and example would be the recent SIS Regulation changes with regard to derivatives).

I now want to turn to the current ISC functions which will move into APRA.

Clearly from APRA's name this means all the prudential supervision activities which are aimed at ensuring the safety and soundness of the entities that APRA will supervise.

For superannuation funds that includes, such things as:

- either election to be regulated or approval to operate as an approved trustee;
- trustee responsibilities to act in the interests of members (eg to implement an appropriate diversified investment strategy);
- actuarial review and solvency certification for defined benefit funds, and
- lodging of annual returns and payment of supervisory levies.

Super funds will continue to be reviewed by APRA as the ISC now does to check compliance and assess if any fund operations need correcting or if any enforcement action is required.

APRA will also be responsible for checking fund compliance with the Government's retirement income standards, which include ensuring funds are for retirement purposes and that super moneys are preserved until retirement.

Some people view superannuation as just another market linked managed investment which does not need prudential supervision. However, super is compulsory, it is long term, it carries considerable tax concessions, much of it still has some form of promised benefit to members, there is a large overlap with life insurance and for many in the community it is becoming their largest asset.

This means the level of safety in the operation of a super fund should be higher than the level of safety in a non-super investment scheme where the investor expects to bear the investment risk. It does not mean there are guarantees about the safety of money in super funds, although there is a special levy mechanism to partially protect fund members from fraud - but only if this is in the national interest.

Although from some press commentary you might not appreciate it, around 90% of the ISC's current functions and resources are involved in prudential supervision and have moved into APRA.

Looking now at the previous ISC functions that will in future be carried out by ASIC we have:

- disclosure requirements (ie the Key Features Statements rules for super funds);
- market conduct, which covers advice giving, including adviser competencies and customer advice records, and
- customer complaints, which means responsibility for oversighting all the complaints handling bodies in the financial sector, including the Superannuation Complaints Tribunal.

This has initially been achieved by giving ASIC the power to administer the specific sections in each piece of ISC currently administered legislation which relate to these direct consumer protection functions. In some cases whole Acts will transfer to ASIC (eg Insurance Agents & Brokers Act, Insurance Contracts Act). For the major Acts, including SIS, it means leaving the provisions where they are but amending them to give ASIC the responsibility and power to carry them out.

While we attempted to complete all outstanding items which the ISC previously had carriage of prior to 1 July a couple of significant issues were not able to be finalised and ASIC now has responsibility for these:

- Key Features Statement rules to accompany the super choice legislation; and
- the resolution of the SCT problem flowing from this years Federal Court decision.

It is intended that there will be a second round of legislation later this year to cover the Government's Corporate Law Economic Reform Program (CLERP) and - if the States and Territories agree - the transfer to the Commonwealth of regulatory responsibility for building societies, credit unions and friendly societies. One of the elements of CLERP is the consolidation under ASIC of consumer protection in the financial sector, including common product disclosure rules and a single licensing regime for financial advisers.

Although for some players in the market the consumer protection aspect of the ISC's work might appear to have been a very significant part of our work it only required about 10% of ISC resources and these have transferred to ASIC.

With the establishment of ASIC there will be one regulator for consumer protection issues, but most of the industries in the financial sector will be subject to prudential regulation as well, and will have to deal with both APRA and ASIC. Initially the legislation for life and general insurance and superannuation refers to APRA in sections dealing with prudential matters and and ASIC in sections dealing with consumer protection matters. So there is both legislation and institutional overlaps between APRA and ASIC.

Some of the legislative provisions cover powers to collect information and take particular regulatory action, and both APRA and ASIC are referred to in those provisions, as they each need these regulatory powers.

You might well ask how all this will work in practice and is there a risk that APRA and ASIC will cut across each other and impact you all negatively.

Clearly APRA and ASIC will need to be clear about how is doing what, and where prudential regulatory activity ends, and consumer protection regulatory activity begins. Discussions between both agencies about these issues have already started and there is more to go.

I have already mentioned COFRS where much of this discussion occurs and working arrangements are put in place. You should remember that both agencies are in the Treasury portfolio so there is a strong incentive to resolve any differences without having to require the Treasurer to do so.

Alan Cameron will be on the APRA Board, so he will be closely aware of APRA's operating policies and strategy and is well placed to make the APRA Board aware of ASIC's approach on different issues.

Information sharing between APRA and ASIC should also be easier because the legislation is being streamlined in this area.

While there are many issues still to be worked through I am confident this will be done sensibly and in a way which does not negatively impact on you in the financial sector.

APRA has begun life with a number of challenges.

Clause 8 of the APRA Bill says that APRA is established to regulate bodies in the financial sector for prudential or retirement income standards purposes, but that in doing so APRA is to "balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality". Balancing acts are rarely easy and this one will not be either, but the APRA Board will need to determine just where the balance should be struck and APRA management will need to implement that balance.

Another major challenge for APRA will be how to achieve a fully integrated financial regulatory organisation and approach, while recognising that it is still separate legal institutions which APRA will license and regulate. Clearly the traditional divisions of banking, life insurance, general insurance and superannuation will, in time, need to be cut through to ensure APRA has one integrated culture, rather than have a number of the old cultures living on. Otherwise the benefits that Wallis saw from integration will not be achieved. However, the outcome is more likely to be common regulatory approaches for each functional aspect of APRA's supervision applied in a tailored way to the variety of institutions, rather than APRA being entirely driven and organised by functions.

One issue raised by many Wallis submissions was the need for harmonised capital requirements for different institutions offering the same style of financial product. This will need to be considered early by APRA, but there are risks in quickly unwinding current requirements and getting out of step with international standards, so care is needed to properly assess all the consequences.

I think it worth specifically making comment about superannuation in the APRA world. In some quarters because many super products do not come with capital guarantees, or hard promises, which need capital backing, it is not clear what form prudential supervision of superannuation should take. The ISC's program of super fund reviews which commenced soon after SIS came into effect in 1994 is nearing completion with the vast majority of funds already reviewed, and we are seeing large changes in the superannuation industry.

We have been reconsidering the supervisory approach to superannuation and this will continue under APRA. Whatever emerges from this reconsideration, I believe it is still important to make it clear that high risk investment strategies, including speculation, gearing, and ill considered investment into downstream investments are to be discouraged, while encouraging investment diversification to minimise risk.

Lets now look at the superannuation industry.

The ISC reviewed 459 super funds and 25 approved trustees in the 6 months to 31 December 1997 and we found that 77% of funds were prudently managed or had shortcomings of only a minor or technical nature. This compares favourably with our 1996/97 results, when only 58% of funds were found to be prudently managed. This is particularly pleasing to see because it demonstrates that trustees are becoming better aware of their responsibilities under SIS.

Many funds rely heavily on service providers for administration, investment and other services and we expect this to continue and expand, as more trustees realise that they need to take a more professional approach to the myriad of issues their fund's face. As long as they appreciate that as trustees they must be ultimately responsible for the activities within their funds, even where they delegate certain functions to service providers.

We have been active in surveying public offer funds and large administrators about their preparedness for dealing with Year 2000 issues, and in recent reviews of approved trustees we have been looking specifically at this issue. There is a wide range of preparedness, and while most had Year 2000 projects in place, the level of progress varied widely from those who are well on track to have mission critical systems compliant in good time, to others who are simply working through their systems in order of importance, but are unlikely to have finished correcting their problems before 2000. Plans by trustees to deal with problems with building or power, problems non compliant third party provided software or hardware, and problems with service providers, especially investment managers and custodians, do not appear to be well advanced. Do not be surprised if we ask some of you, what are your contingency plans for operating when systems or equipment actually fail, other than to sue your supplier.

From 30 June 1997 all approved trustees must lodge a Prudential Management Certificate with the ISC within 4 months after the end of their financial year. It requires the trustees to certify that the board and management have identified and addressed key risks and that risk management systems are appropriate and operating properly. We want to be able to place greater emphasis on funds own internal controls rather than have to carry out our own detailed examination of funds systems and processes. Around 30% of due certificates have not been received and we are currently following these up. Some trustees were not even aware of the certificate and many others were simply signing it, without requiring any additional testing, auditing or advice before doing so. This needs to improve otherwise the certificates are of little use to us.

Total superannuation assets continue to grow at around 15-20% per year and exceeded $340 billion by end March 1998.

Contributions are the big continuing reason for the asset growth with $31.7 billion of contributions flowing into funds during 1997, which was up 13% on 1996 contributions. The strongest growth continues to come from member contributions, increasing by 27% over the previous year to $11.5 billion in 1997. While employer contributions increased by 6% to $20.2 billion. However, benefit payments, excluding transfers, were up 21.5% in 1997 resulting in net contributions of $11.5 billion over the year, much the same as in 1996.

There continues to be polarisation within the industry with the excluded fund, industry fund and retail or public offer market segments all increasing their market share of assets during 1997, while the public sector remained the same and the corporate fund sector's share reduced slightly. But the largest movement in market share was in the segment which represents the combination of annuity products and life office reserves which now accounts for 14% of superannuation assets, down from 16% in 1996.

However, the industry is clearly 'concentrating' at the top end with more than 90% of members, contributions and assets residing in the top 360 or so superannuation funds.

As the Government's choice and portability reforms are progressively introduced into the superannuation market, it is inevitable and desirable that competitive pressures will intensify.

Consumer demand for more choice, for better products, for lower charges and for higher service standards is clearly apparent in the banking market, and superannuation providers should see this as a signpost for the future of their own industry.

On the supply side, we expect the rationalisation, consolidation and retailisation - which is already underway in the superannuation market - to accelerate and persist until the bulk of members and assets in the non-self managed sector gravitate into the several hundred largest funds. There already appears to be a strong secular trend of small corporate and retail funds closing down in favour of large retail funds. Over time, we would expect to also see a number of large corporate and public sector schemes, particularly defined benefit schemes, close to new members or even disappear, as employers generally divert superannuation contributions on behalf of their staff into vanilla schemes in the retail segment of the market.

We would like to see industry standards for performance reporting which facilitate comparisons and league tables. This is a hugely important matter which is best dealt with by the industry itself. We are not attracted to reporting rules for fund managers - whether wholesale or retail - which are statutory, mandatory and commercially restrictive. However, we are strongly in favour of comprehensive, sound and speedy industry self-regulation in this area. And we would expect market pressures for comprehensive and consistent performance and expense reporting to increase as member choice becomes institutionalised.

Both the administration and investment aspects of superannuation exhibit economies of scale and scope. This is clearly the driving factor behind a number of the efforts at merger and consolidation which have been attempted or are underway. It is not always easy to achieve the right fit and align all parties interests, but if and when it can be achieved the savings and benefits can be significant.

Downward pressure on fees and charges will be profound and relentless. Market developments such as indexed funds and the merger of fund managers to achieve economies of scale to spread further their fixed costs, such as those for technology and investment research suggest this is indeed possible. It is entirely plausible that consumer preferences will increasingly shift towards low-cost passive index funds as resistance to exaggerated marketing hype grows and spreads.

I will leave you with a parting indication of the approach that APRA will be taking in focussing on superannuation fund operations for the next twelve months.

We will be treating as our objective to encourage superannuation trustees to properly administer members' funds by taking steps to:

·1. Risks: implement a considered risk assessment process which identifies all risks and emerging challenges both in terms of internal decision and control processes and the external environment.

·2. Controls: implement and monitor a decision, control and compliance regime which effectively addresses the funds' legislative obligations and other identified risks.

·3. Investment: develop a properly considered investment strategy which is consistent with, and is being implemented to achieve, the investment objective adopted for the fund.

·4. Governance: meet high standards of competence, integrity and knowledge (either directly or acquired) to properly carry out its responsibilities to members of the fund and, where appropriate, implement corporate governance initiatives such as a 'conflict of interest' policy and a policy in relation to related party transactions and disclosure.

·5. Planning: implement a strategic plan that places due focus on the long term nature of member interests.

In engendering an environment where trustees put these in place within superannuation funds we will be using a number of avenues and not just fund reviews. We will be following these five aspects up via education/ liaison, technical advice and enforcement as well as via on-site inspection work.

Thank you.

The Regulator's Overview of the Industry's Issues in Australia

A speech presented by Craig Thorburn, Chief Manager Life Insurance, at the LADG National Life Insurance Conference, Gold Coast, 28 September 1998.

Introduction

Thank you for the opportunity to attend your conference and to provide you with my perspective on the current issues facing what is perhaps best described as "that part of the financial sector which includes authorisation to provide life insurance policies".

Clearly, as many of you would be aware, the pure life insurance company has been a disappearing part of the financial landscape for a long time. The last year, indeed the last three months or so, has seen this pace accelerate dramatically.

The term 'life insurance companies' is one that is still relevant for a number of licensed companies but, at the same time, many of the licensed life companies are better characterised as funds managers, service providers, or financial services conglomerates. This is not to say that I don't think that there remains a very real role for the life insurance products or for organisations that wish to provide some of these products to the market in a very focussed (niche) manner.

I thought that I would discuss with you a range of topics under the general headings of APRA first then the market. My hope is to canvass a range of contributing issues that may then be reinforced later in the conference by another speaker. Perhaps they will even proffer an answer to some of the challenges.

The role of the regulator

First I would like to put some of my later comments in context. The regulators role is set out in the relevant legislation. It involves enhancing the protection of policyholders and depositors and encouraging the development of a competitive and vibrant industry. At the same time, we are responsible as a statutory body to ministers and to the parliament and through them to the people of Australia.

APRA has its objectives enshrined in legislation.

Section 8 of the Australian Prudential Regulation Authority Act 1998 (the APRA Act) states: -

> *8 Purpose for establishing APRA*
>
> *(1) APRA is established for the purpose of regulating bodies in the financial sector in accordance with other laws of the Commonwealth that provide for prudential regulation or for retirement income standards, and for developing the policy to be applied in performing that regulatory role.*
>
> *(2) In providing this regulation and developing this policy, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality.*

These objectives can be in conflict and the required balancing is recognised in the wording of the legislation.

Clearly, there are some times when our interest in an issue must be maintained for the benefit of policyholders and consistent with the expectation of the general public.

This may not always seem convenient to regulated entities, but the benefits of regulation – that is being part of a respected marketplace with the additional standing that the regulatory framework can provide, should be positive.

APRA implementation

On 1 July, as announced, the Australian Prudential Regulation Authority (or APRA) came into being and the Insurance and Superannuation Commission ceased to exist. Implementation has been marked by public announcements by the Treasurer and by the new Chairman (Jeff Carmichael) and CEO (Graeme Thompson). Board members have been appointed.

APRA is facing a large number of issues as would be expected. Continuing day to day operations is an obvious requirement. There is a substantial amount of effort required simply to enable the regulator to fulfil our role, particularly in a time when organisations are undergoing structural change themselves.

The longer-term structure of the organisation is also an issue occupying the senior management and Board. Importantly, as APRA is to move to 'functional' rather than 'organisational' supervision then this will require significant change (that is less priority on a structure that reflects the regulation industry segments i.e. Life Insurance Act, Banking Act hence Life Insurance and Banking Divisions). As I have discussed the implementation of APRA with my own (multi-licensed) entities there is a broad expectation that APRA will offer benefits in dealing with a single regulator.

The CEO has identified Conglomerates and Non Operating Holding companies as high priorities. In addition, the state-supervised entities, which include building societies, credit unions and friendly societies, will introduce a further raft of matters for attention. Clearly, even though the objective of the prudential supervision is not to drive change but to respond to it, there will be some potential for change in these sectors and in their interaction with the other parts of the regulated financial sector.

It has been announced that the Friendly Societies that will transfer to APRA are likely to do so through amendments to the Life Insurance Act.

Market commentary

I have also been asked to discuss my perspective of the industry's changes and potential future directions and have chosen three particular areas.

Mergers and acquisitions - IATA / FS(S)A and future directions

The seeming 'hot topic' at the moment is the current industry rationalisation. This has been evidenced throughout the year both in the initiatives which have been completed, those that have been announced, and those where the CEOs have indicated that they are keen to find an acquisition but have not announced any progress. Almost every company has seemed to indicate that they have an appetite to grow faster than organic options will allow.

This trend is not to be considered surprising following the Financial Sector Inquiry and the implementation of the recommendations. During the inquiry, some press debate discussed how the challenges of globalisation and convergence can be facilitated, and what regulatory environment was needed to support this change. As we move to a 'post Wallis' environment then it is not unreasonable to see that such rationalisation would be taking place.

I would contend that the implementation of these reforms is yet to have real effect in the industry, other pressures (competition) have led to the perceived need for change. This is quite reasonable. After all, if regulation should respond to changes rather than force them.

Rationalisation has already left a changed operating landscape and many companies can find that the new landscape pressures for change within the organisation to ensure relevance going forward.

Simply put, the strategic playing field has moved and not all players can be certain that they are still on the field right where they want to be. This means that they would choose to move to another position or to alter their own game plan to allow them to operate successfully in the altered position they find themselves in currently. Both are quite legitimate and potentially very successful strategies.

Convergence ?

There is great interest in the motivation for such acquisitions. In my experience, the reasons are varied and, in most cases, may be based on a good strategic case for the companies involved. But it would be errant to consider that a single force exists that is driving the change other than overall industry rationalisation.

Much is said about convergence in the financial sector. I am less convinced that convergence is as complete as it can be. Rather, my observation is that many organisations are on the path toward convergence. Convergence suggests that banks must obtain insurance operations and vice versa. I am less convinced that this remains a key motivator. Equally, I am not sure that convergence is compulsory. After all, there must be organisations where a strategic decision to remain as a life insurer can be valid, indeed even optimal.

The Colonial acquisitions of Legal and General and SGIC and the announcements regarding Prudential have been partly justified to the financial markets through the expectation of rationalisation of business leading to cost savings. That is, economies of scale. This argument is used to support the perception that the premium paid by Colonial can be justified on this basis.

This raises a question about where we might see greater conglomeration. After all, the acquisition of a life insurer by another life insurer may to lead to some efficiency (aggregation). If we consider that these will generate a benefit which is worth an acquisition premium then other suitors without existing life insurance business (and therefore without access to the same potential premium) will need to develop their own synergistic arguments to justify a competing price. The requirement for synergistic savings to justify prices works against convergence. We will see how successful those without existing operations are at obtaining other strategic justifications. The only alternative is to wait until the appetite for aggregation amongst the existing players is satisfied – which is not likely to be a palatable strategy for all.

The market for the sale or purchase of life insurers and funds managers at the moment seems to generate sufficient premiums to drive aggregation of current players rather than acquisition by others seeking to get into the market or to broaden their range of services (convergence).

Legislative Requirements

There has, however, been a change to the regulatory structure regarding the change of ownership of financial entities. Prior to 1 July 1998, these transactions were controlled for insurers under the Insurance Acquisitions and Takeovers Act (IATA) whereas, now there is a new piece of legislation governing change of shares called the Financial Sector Shareholdings Act (FS(S)A).

IATA is still in force regarding certain other changes of control and movement of assets.

However, for most changes in ownership or structure, FS(S)A will apply. The FS(S)A also replaced the Bank Shareholdings Act bringing together a uniform approach to the treatment of ownership change approvals.

Of note, this uniform change has included some procedural changes to IATA. Under IATA, the applications were taken as not leading to any objection if there was no such objection raised within 30 days of a completed application. Under FS(S)A, approvals are given in positive rather than default terms.

Second, the Insurance and Superannuation Commissioner administered IATA whereas Treasury administers FS(S)A.

Although only minor in practical terms, it is possible for those not familiar with the processes and the new legislation to waste valuable resources and effort on the wrong application and this could, conceivably, lead to frustrating delays for the applicant. I would encourage those of you who are considering involvement in one of these transactions (and if you believe the newspapers then everyone is) to be familiar with both (the current version of) IATA and the FS(S)A.

The one other point I would like to make is that APRA, like the ISC before it, is not here to obstruct acquisitions or changes in the makeup of market participants unless there are specific reasons for doing so. We are more than happy to discuss potential applications and processes with anyone and would remind you of the secrecy we are bound to follow. We prefer to have ample notice of intentions and the opportunity to provide any comments on the structures and issues we would want to see addressed in an application. Early advice helps smooth the process and enables issues to be tabled and addressed.

The more recent activity has meant that we have built up some experience in dealing with applications of late. In fact, it is likely that we will have more experience on some of the particular issues where we have an interest than those of you involved in the company (where these things occur less frequently). So this also means that there is advantage on both sides in having an earlier rather than a later discussion.

We are, however, principally concerned with the prudential implications for the organisations involved – both the purchaser and the target. As a result, we will be interested in how a proposed acquisition will be structured, how the entitlements of policyholders (in the case of life insurers) will be protected, and whether the proposed structures and developments in the future will be consistent with the ongoing ability to perform our prudential supervision task. We are also concerned, although this tends to be less of an issue in practice, that people with appropriate expertise and character are involved.

The other issues of importance (including, competition issues, foreign investment approvals, the national interest) are things we provide internal comment on but the lead is taken by the relevant regulators.

Strategies, markets, products and profitability

The second matter I thought I would discuss was my view, of several other issues in the market which we have seen this year and are likely also to see have an impact in the year ahead.

Whilst the acquisition activity is a key strategic issue, the competitive issues remain. The fact that we are in the middle of an election campaign and, as I am in the public sector, I too cannot discuss any issues which may rest on the policy decisions of the incoming government. I can, however, note that there are a number of longer term issues which continue to impact on the industry, the types of products it manufacturers and the methods used to deliver these products to the customers.

Profitability is one issue that can lead to change. Companies are, quite rightly, continuing to monitor product profitability and the competitiveness of the products they provide in the marketplace. One area of some interest has been the profitability of Disability Income Insurance. This market has been particularly competitive for a long time and both retail and reinsurance pricing have driven the rates. The last 12 months have seen many organisations review and relaunch their products, usually with reasonable premium increments to reflect their experience. Whether this process has further to go remains to be seen, but there was no doubt that it was needed and, had there been a reluctance to deal with this in the marketplace then the regulator would have become more interventionist in approach to reflect the concerns we would have had.

Changing markets - the area of retirement incomes, drives a second product issue. This is a significant product area for the life insurance market which will develop over the next 10 years. In particular, as the demographics would suggest, the massive growth in asset accumulation products driven by superannuation (and the superannuation guarantee interacting with the population structure) will be overtaken by a similar increase in the market for products as people retire. In fact, it will become relatively more important.

In Australia, we have a fair way to go before we can consider that the inherent benefits to individual customers and the collective population is understood and appreciated. The challenge for the industry is to foster this appreciation and then to deliver effective and appropriate products for this segment. There can be little doubt that the effective players in this market in the future will be far more successful than the current specialists who operate in this segment can.

My point in this section is that (potentially) everything is in play. The ability of companies to respond to the fluid environment will be tested as much as it has been for quite some time. Perhaps when we moved into a changing environment some time ago it took some time to get used to constant change. I suspect now, that the one constant is the increasing pace of change. For those who did school physics – not location, or speed but acceleration.

Other issues

I could finally touch on the elements of the environment, which are drawing my ongoing attention – for information. The list seems to get longer every day but I would simply draw your attention to the following:

Year 2000

I suspect this task is one that everyone has heard more than enough about. The industry is in the middle of a very major project – involving significant resources and effort. Our inspections have assisted us greatly in understanding the progress, and the challenges that still remain ahead. Project plans are yet to hit critical milestones and there is no certainty that all milestones will be passed without incident. Contingency plans are under development.

As the regulator, we need to continue our interest in the issue until the project is completed. That can only be when the remediation is complete and tested, and the contingency planning is secured.

Of course, at the end of the day, we can do this in a way that assists the industry through the provision of feedback on the strengths and weaknesses of progress. We are also participating in an international forum of regulators in this area. Whilst providing us with some additional resource requirements we would consider that the benefits of being recognised as a jurisdiction where the regulator has an active interest in Y2K is to the benefit of the industry.

Corporate Governance and Conglomerates

The advent of interest in non-operating holding companies, conglomerates and regulation, and the aggregation in the market suggests that there is benefit in being able to consider an organisation as a whole. This is also a matter that has had some considerable international participation by the ISC and now APRA.

In contrast, the Life Insurance Act does not regulate conglomerates at this stage and we are reliant on the regulation of the Life Company (within the conglomerate) and the obligations placed on the directors, auditors and actuaries of the Life Company.

Where it is feasible, I am seeking ways to facilitate consideration of issues at the conglomerate level. Such an approach can be very helpful to us as well as to the organisation. Important measures of prudential control however, such as the responsibilities on directors, auditors and actuaries, remain in place and we are therefore interested in how the directors of the Life Company are considering their duties.

As part of our consideration of this issue, it is likely that we will be seeking to explore and better understand precisely how the directors of life companies within conglomerates understand and carry out their role.

Derivatives

The final international issue relates to the use of derivatives. The International Association of Insurance Supervisors is in the process of developing minimum standards. As mentioned above, the benefit of Australia having a strong reputation as a jurisdiction with a good regulatory structure leads to a good reputation for the industry as a whole.

One of the soon to be released standards relates to derivatives. Given our desire to express to the international community that we not only meet but exceed the standards, this suggests that we may need to explore this issue and update our own understanding of the actual practices applying at the coal face of funds management operations and back offices.

Again, I would hope that this exploration would provide the opportunity to provide useful feedback to the industry as a whole and to the companies involved.

Conclusion

With so much change both in the regulator and through domestic and international influences on the life insurance sector then it is not surprising that I opened with the view that so many life insurance companies do not have that label any more. But there is still the opportunity to transact life insurance business and this will always be the case unless we are (for example) relieved of the effects of early death, disablement, or the financial risks associated with longevity.

Thank you again for the invitation to be with you this morning and my best wishes for an enjoyable conference. At least we can be sure that there will be plenty to do when we all get back to the office.

Index of speeches by APRA officers

The following speeches and presentations were given by APRA Executives in recent months.

Copies of selected speeches and presentations may be available by contracacting APRA. Requests should be made on the 'Speech Request Form' found in the "Order Forms" section in this Bulletin. Alternatively, selected speeches may be obtained directly from our internet home page: "http://www.apra.gov.au".

Index of recent speeches

Thorburn, C. "*The Regulator's Overview of the Industry's Issues in Australia*", presented at the LADG National Life Insurance Conference, Gold Coast, 28 September 1998.

Gray, B. "*Prudential Regulation and the New Regulatory System*", presented at the Australasian Banking Conference, Melbourne, 24 September 1998.

Phelps, L. "*The New Super Regulator*", presented at the 8th Annual Credit Law Conference, Business Law Education Centre, 24 Spetember 1998.

Karp, T. "*Role of the Regulator, In-house and External Adviser*", presented at the Australasian Conference on Financial Service Taxation, Gold Coast, 17 September 1998.

Thorburn, C. & Doran, K. "*APRA - What it means to you*", presented at Ernst and Young Seminar, Sydney, 11 September 1998.

Thompson, G. "*APRA - The Outlook for Prudential Regulation*", presented at the IFSA Financial Services Conference, Canberra, 8 September 1998.

Karp, T. "*Superannuation Choice*", presented at the IFSA Financial Services Conference, Canberra, 7 September 1998.

Thompson, G. "*APRA and the New World of Financial Regulation*", presented at CEDA, Brisbane, 27 August 1998.

Carmichael, J. "*The New Prudential Regulatory Environment*", presented at the Society of Corporate Treasurers, Sydney, 13 August 1998.

Thompson, G. "*Introducing APRA*", presented at the Insurance Council of Australia, Canberra, 6 August 1998.

Chapman, K. "*The New Superannuation Regulatory Framework*", presented at the AIC Conference on Member Choice of Superannuation Funds, Sydney, 30 July 1998.

Thompson, G. "*APRA and the New Regulatory System*", presented at the Securities Institute, Adelaide, 23 July 1998.

Other APRA publications

APRA produces a range of publications containing important information on various aspects of the superannuation and insurance industries. Below is a list of these publications, a short description of their contents and how copies of them may be obtained.

For further information, please see APRA's internet homepage at 'http://www.apra.gov.au'.

Superannuation

'Superannuation Trustee Newsletter'

The newsletter provides commentary on all the latest news and developments in superannuation from a trustee's perspective.
To obtain copies of the Newsletter contact APRA on 13 10 60 (for the cost of a local call).

'The Trustee Guidebook to Superannuation'

The guidebook provides a summary of what APRA expects of trustees and the APRA' s approach to the administration of the SIS legislation. The guidebook is aimed primarily at non-excluded fund trustees.

'Good Practice Guide'

The guidebook provides a practical guide to improving prudent management of a superannuation fund and is based on the APRA' s supervisory findings. The guidebook is aimed primarily at trustees of corporate and industry superannuation funds.

'Super Fraud - How to reduce the risk, A Best Practice Guide'

This Guide is designed to proved trustees with a practical strategy and approach to fraud detection and prevention with a special focus on electronic commerce. Its accompanying Fraud Checklist should be completed a regular basis by trustees as part of their strategy to minimise the risk of fraud within their fund.

'Small Super Funds Guidebook'

This is a guidebook for trustees and advisers of superannuation funds with fewer than five members, that is excluded funds. It sets out the rules that apply to these funds and the ISC's approach to the administration of the SIS legislation. It is a companion to the Trustee Guidebook.

Copies of these guidebooks may be obtained for $AUD 10 each, or $AUD 15 for the *'Good Practice Guide'*. Contact APRA on 13 10 60 (for the cost of a local call) for more details.

'ISC Superannuation Digest'

The Digest includes in one volume of old ISC Superannuation Circulars, other APRA releases such as discussion papers and broad overview statistical information, as well as the text of all superannuation legislation administered by APRA.
The Digest is available by subscription through CCH Australia Ltd - freecall 13 24 47.

Life insurance

'Half Yearly Financial Bulletin'

Contains selected financial data of life companies, primarily at aggregate level but also including some company level abstracts, for companies balancing during the year to date.

'Company Financial Returns'

Diskette containing all the returns of life companies collected under Commissioner's Rules 21 (Financial Statements) for companies balancing during the year to date.

'Company Market Statistics Returns'

Diskette containing all the returns of life companies collected under Commissioner's Rules 32 (Collection of Statistics) for companies balancing during the year to date.

Note: Prices and distribution details for these publications are still to be finalised.
Contact Dette Sinay on telephone 02-6 213 5395 for more information.

General insurance

'Selected Statistics on the General Insurance Industry'

Contains statistics and aggregate financial and underwriting information for private sector insurers balancing during the year to date. Published bi-annually. Voluntary information provided by public sector insurers is included annually in the June edition. This publication can be obtained at any Commonwealth Government Bookshop.

Note: Selected Statistics may also be obtained on diskette directly from APRA for $AUD 15 per edition. Contact Daniel Marsden-Pidgeon on telephone 02-6 213 5333 for more details.

Banking

'Australian Banking Statistics'

Contains statistics on the assets and liabilities of individual banks, including a breakdown by State.

Annual subscriptions to this publication are available for A$20. Copies are available free of charge from the APRA internet homepage at ' http://www.apra.gov.au/abs' .

Australian Government Actuary

'Australian Life Tables 1990-92'

'Deaths in Australia'

These publications can be obtained at any Commonwealth Government Bookshop.

Actuarial valuations for Australian Government Superannuation Plans:

Commonwealth Superannuation Scheme (PSS)
Public Sector Superannuation Scheme (PSS)
Military Superannuation and Benefits Scheme (MSBS)
Defence Force Retirement and Death Benefits Scheme (DFRDBS)
These publications can be obtained at any Commonwealth Government Bookshop.

Research papers

Thorburn, C. "*What the Guarantee Means: A Statement of the Structural Conditions Supporting the Aged Pension in Australia*", Sixth Annual Colloquium of Superannuation Researchers, University of Melbourne, 1998.

Higgins, T. "*Australian Mortality:Improvement and Uncertainty in an Ageing Population*", Sixth Annual Colloquium of Superannuation Researchers, University of Melbourne, 1998.

Thorburn, C. "*Where Have all the Children Gone?:Some Current Notes on Australian Fertility*", Sixth Annual Colloquium of Superannuation Researchers, University of Melbourne, 1998.

Antcliff, S., and Thorburn.C. "*Preservation in the Public Sector Superannuation Scheme*", Fifth Annual Colloquium of Superannuation Researchers, University of Melbourne, 1997.

Thorburn, C. "*The Relative Capital Requirements Imposed for Providers of Capital Guarranteed Retirement Savings Accounts*" Transactions of the Institute of Actuaries of Australia, 1997.

Thorburn, C. *Three papers on the development of the annual life tables*, Office of the Australian Government Actuary, 1997.

Duval, D. "*The Financing and Costing of Government Superannuation Schemes*", Office of the Australian Government Actuary, 1994.

Copies of these papers can be obtained by contacting the Office of the Australian Government Actuary (telephone 02-6 247 2299).