APPENDIX 2.1: OVERVIEW OF AUSTRALIA'S FINANCIAL SYSTEM

Introduction

Table A provides an overview of the Australian financial system. It includes details of concentration ratios and industry weightings as well as an overview of asset and liability profiles and capital adequacy levels across the sectors. These figures are discussed in more detail under the relevant sector.

Table A: Overview of Australia's prudentially regulated financial sector

	Authorised deposit-taking institutions (ADIs)										
	Major banks[1]	Other domestic banks	Foreign subsidiary banks	Foreign bank branches	Building societies	Credit unions	All ADIs	Life insurance[2]	General insurance	Super	Total
Key statistics											
Number of institutions	4	9	13	24	14	187	251	40	143	269,356	269,790
Concentration ratios											
Top 4 as a % of sector assets							66%	70%	35%	-	
Top 10 as a % of sector assets							82%	93%	58%	-	
Industry Weighting											
Top 4 as a % of system assets							33%	6%	1%	-	
Top 10 as a % of system assets							41%	8%	2%	-	
Assets[3]											
$ billion	737.9	146.4	81.2	111.6	13.0	28.5	1,118.6	181.5	73.6	533.9	1,751.3
%							64%	10%	4%	30%	100%
Liabilities[4]											
$ billion	681.0	136.0	75.7	111.1	12.0	26.1	1041.9	155.3	53.9	533.9	1,628.7
%							64%	10%	3%	33%	100%
Capital adequacy (risk weighted)	10.2%	12.2%	12.5%	-	13.9%	14.4%	-	-	-	-	
Solvency	-	-	-	-	-	-	-	1.8[5]	2.05[6] 1.74[7]	-	

1 Major banks include National Australia Bank (NAB), Commonwealth Bank of Australia (CBA), ANZ Banking Group (ANZ) and Westpac Banking Corporation.
2 Life insurance data includes the superannuation assets and liabilities of life insurance companies.
3 Percentages sum to greater than 100 per cent due to the double counting of superannuation assets.
4 Percentages sum to greater than 100 per cent due to the double counting of superannuation liabilities.
5 As at March 2002.
6 Solvency coverage for direct insurers.
7 Solvency coverage for reinsurers.

Source: Australia Prudential Regulation Authority.

Authorised deposit-taking institution industry

Overview

As at June 2003, there were 251 authorised deposit-taking institutions (ADIs) operating in Australia. These include 50 banks, 14 building societies and 187 credit unions. Total ADI assets amounted to $1,118.6 billion and accounted for nearly 50 per cent of the total assets in the Australian financial system (prudentially and non-prudentially regulated sectors). Banks accounted for about 48 per cent of financial system assets while non-bank ADIs accounted for about 2 per cent.

As shown in Table B, the ADI sector is dominated by the four major banks. These top four banks accounted for 66 per cent of the industry's assets as at end-June 2003. The top 10 banks accounted for 82 per cent, foreign banks for around 17 per cent, and the non-banks slightly less than 4 per cent.

Table B: Market share of different classes of ADIs (as at end-June 2003)

Classes of ADIs	Number of ADIs	Total assets in Australia (AUD billion)	As per cent of ADI sector	As per cent of total financial system assets[1]
Domestic banks	13	884.3	79.0	39.2
Major banks [2]	4	737.9	66.0	32.7
Other	9	146.4	13.0	6.5
Foreign banks	37	192.8	17.2	8.5
Subsidiaries	13	81.2	7.2	3.6
Branches	24	111.6	10.0	4.9
Other ADIs	201	41.5	3.7	1.8
Building societies	14	13.0	1.2	0.6
Credit unions	187	28.5	2.5	1.2
Total	**251**	**1,118.6**	**100.0**	**49.5**

1 Percentages in the previous table were as a proportion of the prudentially regulated financial system only.

2 Major banks include National Australia Bank (NAB), Commonwealth Bank of Australia (CBA), ANZ Banking Group (ANZ) and Westpac Banking Corporation.

Source: Australia Prudential Regulation Authority.

Asset profiles

Table C shows the break-down of assets between residents and non-residents, the currency composition of assets, and major resident assets categories.

Banks have a majority of their Australian assets in Australia and denominated in Australian dollars. As at June 2003, resident assets denominated in foreign currency accounted for less than 3 per cent of most locally incorporated banks' total assets in Australia.

Foreign bank branches generally have a higher percentage of their assets in Australia denominated in foreign currency, corresponding to a higher weighting of non-resident assets and a higher percentage of resident assets denominated in foreign currency. Loans and advances constitute a major component of ADIs' assets in Australia.

Loans and advances to residents account for more than 65 per cent of the total assets of most locally incorporated banks (while loans to non-residents account for less than 3 per cent of their total assets) and about 80 per cent of the total assets of non-bank ADIs.

Other major resident assets include cash and liquid assets, trading and investment securities, and investment in related entities. Trading and investment securities account for about 6-9 per cent and 2-9 per cent of banks' total assets in Australia respectively. For building societies, investment securities account for about 16 per cent of their total assets and less than 5 per cent of total assets for credit unions. Investment in related entities generally account for about 5 per cent of total assets for most domestic banks and about 1 per cent of total assets for foreign subsidiary banks and non-bank ADIs.

Table C: Asset profiles of ADIs (as at end-June 2003)

	Major banks	Other domestic banks (ODB)			Foreign subsidiary banks	Foreign bank branches	Building societies	Credit unions
		With overseas branches	Without overseas branches	All ODB				
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Australian assets*								
Residents	96	94	99.9	96.1	93.5	71.4	100	100
Non-residents	4	6	0.1	4	7	29	0	0
Overseas operations	1	1	0	0.4	0.2	10	0	0
Loans due from non-residents	1	2	0.1	1	3	7	0	0
AUD	96	95	99.7	97	93	77	100	100
Foreign currency	4	5	0.3	3	7	23	0	0
Resident assets in foreign currency	2	1	0.3	1	3	10	0	0
Major resident assets								
Loans and advances	66	65	80	71	71	34	78	80
Cash and liquid assets	3	4	3	3	3	6	3	14
Trading securities	6	8	6	7	9	9	0	0
Investment securities	2	1	5	2	6	9	16	4
Investment in related entities	4	5	5	5	1	0	1	1
Loans and advances to residents								
Housing	39	40	45	42	35	0.04	66	56
Personal	7	9	5	7	7	0.02	6	21
Commercial	20	16	31	22	28	34	6	3
Number of institutions	5	3	6	9	13	24	14	187

* All items are expressed as a percentage of total assets on Australian books.
Source: Australia Prudential Regulation Authority.

Liability profiles

Table D sets out the liabilities of ADIs. Non-resident liabilities (liabilities due to overseas operations and deposit and other liabilities due to unrelated non-residents) account for about a quarter of the total liabilities in Australia of the major banks and foreign subsidiary banks and about 15-20 per cent of the total liabilities of other domestic banks. In respect of foreign bank branches non-resident liabilities accounted for over 40 per cent of their total liabilities in Australia at end-June 2003, reflecting in part their reliance on funding from foreign bank parents.

As at June 2003, foreign currency liabilities accounted for about 14-20 per cent and 30 per cent of locally incorporated banks' and foreign bank branches' total liabilities in Australia respectively.

Deposits account for about half of the total liabilities in Australia for locally incorporated banks and over 90 per cent of total liabilities for non-bank ADIs.

Other major funding from residents includes issuance of certificates of deposit and other borrowings from the wholesale market which, in aggregate, account for just over 10 per cent of the major banks' total liabilities in Australia and about 20-25 per cent of total liabilities for other banks. Non-bank ADIs have less access to wholesale funding than banks, and deposits are the major (95 per cent) funding source.

Of these other funding sources from residents, certificates of deposit represent the major component and account for about 10 per cent of the major banks' total liabilities in Australia and about 15-20 per cent of total liabilities for other banks. Other borrowings only account for about 2-7 per cent of banks' total liabilities in Australia.

For most domestic banks, non-resident deposits represent only a small proportion of their total deposits in Australia (less than 5 per cent in general). Foreign banks' reliance on non-resident deposits is significantly higher. For most locally incorporated banks, household deposits generally account for about half of their total deposits in Australia. In respect of non-bank ADIs they account for around 80-90 per cent of total deposits. Foreign bank branches, in contrast, source almost all of their resident deposits from non-household sectors (mainly from financial and non-financial corporations). Deposits from small businesses (sole proprietors/partnerships) and community service organisations account for about 7-10 per cent of total deposits of all locally incorporated banks, while deposits from other entities (including financial and non-financial corporations and government entities) account for about 30-40 per cent of total deposits.

Only a small percentage of locally incorporated banks' resident deposits are denominated in foreign currency and a majority of these are sourced from financial and non-financial corporations. In contrast, foreign currency deposits from households account for around 1 per cent of the total deposits of foreign subsidiary banks.

About 35-40 per cent of household deposits with domestic banks and non-bank ADIs are held in transaction accounts (that is, deposit accounts that provide chequeing or other payment facilities from which payments can be made to third parties). More than half of the deposits held by locally incorporated banks from small businesses, financial and non-financial corporations and government entities are held in transaction accounts, while a majority of the deposits from community service organisations are held in savings and term deposit accounts (that is, deposit accounts with no chequeing or other payment facilities attached to them).

Table D: Liability profiles of ADIs (as at end-June 2003)

	Major banks	Other domestic banks (ODB)			Foreign subsidiary banks	Foreign bank branches	Building societies	Credit unions
		With overseas branches	Without overseas branches	All ODB				
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Australian liabilities[1]								
Residents	76	79	85	81	73	58	100	100
Non-residents	24	21	15	19	27	42	0	0
Overseas operations	7	0.4	0	0.2	1	16	0	0
Non-resident deposit liabilities	2	5	0.5	3	6	11	0	0
AUD	86	83	85	84	80	72	100	100
Foreign currency	14	17	15	16	20	28	0	0
Resident liabilities in foreign currency	1	2	1	2	2	8	0	0
Foreign exchange deposits	0.7	0.1	0.2	0.2	1.2	3	0	0
Other borrowings	0	0.02	0.7	0.3	0.3	1	0	0
Major resident liabilities								
Deposits	46	48	55	51	49	24	96	94
Households	22	30	33	31	27	0.1	77	88
Private unincorporated business	2	2	4	3	2	0.01	-	-
Community service organisations	1	0.2	1	0.5	0.2	0.02	-	-
Other	21	15	17	16	20	24	19[3]	6[3]
Certificates of deposit	9	15	19	16	17	13	0.3	0
Other borrowings	2	4	7	5	3	5	1	4
Due to financial institutions	1	1	1	1	1	2	1	0.3
Resident and non-resident deposit liabilities	49	52	56	54	55	35	96	94

Table D: Liability profiles of ADIs (as at end-June 2003) (continued)

	Major banks	Other domestic banks (ODB) With overseas branches	Without overseas branches	All ODB	Foreign subsidiary banks	Foreign bank branches	Building societies	Credit unions
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Australian deposit liabilities[2]								
Residents	96	91	99	94	88	69	100	100
Non-residents	4	9	1	6	12	31	0	0
Resident deposits								
Households	46	58	59	58	48	0.2	79	94
Private unincorporated business	5	4	8	5	4	0.03	-	-
Community service organisations	2	0.4	2	1	0.3	0.05	-	-
Sub-total	53	62	68	65	53	0.3	79	94
Other	43	29	31	30	35	69	21[3]	6[3]
Resident deposits in foreign currency	1.3	0.3	0.3	0.3	2.2	10	0	0
Households	0.03	0.08	0.03	0.06	0.6	0.01	0	0
Private unincorporated business	0.02	0	0.02	0.01	0.03	0.005	0	0
Community service organisations	0.002	0.0006	0	0.0004	0.0002	0	0	0
Other	1.3	0.2	0.2	0.2	1.6	10	0	0
AUD resident deposits in transaction accounts	43-45	56-59	37-40	48-51	20-56	3-23	30	40
Households	16	39	24	33	10	0	26	38
Private unincorporated business	4	3	4	3	3	0.003	-	-
Community service organisations	1	0.1	0.2	0.1	0.1	0	-	-
Other	22-24	14-17	9-12	12-15	7-43	3-23	4	2
Number of institutions	4	3	6	9	13	24	14	187

1 All items shown under 'Liabilities' are expressed as a percentage of total liabilities on Australian books.
2 All items shown under 'Australian Deposit Liabilities' are expressed as a percentage of total deposit liabilities in Australia.
3 No separate figures available for deposits from private unincorporated business. Such deposits have been included in the 'Other' category.
Source: Australia Prudential Regulation Authority.

Capital adequacy

All locally incorporated ADIs are required to maintain at all times a minimum risk-based capital adequacy ratio of 8 per cent at both the stand-alone and consolidated banking group level, half of which must qualify as 'Tier 1' capital. This is the internationally accepted risk-based capital adequacy framework established by the Basel Capital Accord under which ADIs are required to hold capital against their credit risk (which includes both on- and off-balance sheet risk-weighted credit exposures) and market risk. All newly established ADIs or an ADI judged to have an excessive concentration of credit risk exposures or significant other risk exposures are generally subject to a higher minimum capital ratio.

As shown in Table E, locally incorporated ADIs maintain a risk-based capital adequacy ratio well above the 8 per cent minimum requirement.

Table E: Capital adequacy ratio (as at end-June 2003)

	Major banks	Other domestic banks	Foreign subsidiary banks	Building societies	Credit unions
Eligible Tier 1 capital ($ billion)	45.1	7.8	5.3	0.8	2.4
Eligible Tier 2 capital ($ billion)	25.3	4.3	1.2	0.1	0.2
Capital deductions ($ billion)	7.3	1.1	0.1	0.0	0.1
Total capital base ($ billion)	63.2	11.0	6.5	1.0	2.4
Total risk-weighted exposures ($ billion)	622.3	90.1	52.0	7.1	16.9
Tier 1 capital ratio	7.2	8.6	10.3	11.8	14.0
Capital adequacy ratio	10.2	12.2	12.5	13.9	14.4
Number of Institutions	4	9	13	14	187

Source: Australia Prudential Regulation Authority.

All locally incorporated ADIs (whether Australian- or foreign-owned) are subject to the depositor protection provisions of the *Banking Act 1959* (refer to Chapter 3 and Appendix 3.1 on Australia's existing regulatory framework for a discussion on depositor priority). The depositor priority and protection provisions of the Banking Act do not apply to depositors of foreign bank branches. Foreign bank branches are not permitted to take an *initial* deposit from an individual for an amount less than $250,000 (although account balances and subsequent deposits can fall below this level).

Table F: Asset to Liability Ratios (as at end-June 2003)

	Major banks	Other domestic banks (ODB) With overseas branches	Other domestic banks (ODB) Without overseas branches	Other domestic banks (ODB) All ODB	Foreign subsidiary banks	Foreign bank branches	Building societies	Credit unions
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Total assets:total liabilities	108	107	109	108	107	100	108	109
Australian assets:Australian deposit liabilities (excluding certificates of deposit)	213	191	195	193	182	204	112	116
Australian assets:Australian deposit liabilities (including certificates of deposit)	179	149	146	148	139	148	111	116
Number of institutions	4	3	6	9	13	24	14	187

Source: Australia Prudential Regulation Authority.

As shown in Table F, locally incorporated banks have maintained their coverage ratio of assets in Australia to total deposit liabilities in Australia (excluding certificates of deposit) above 180 per cent, with the major banks having a ratio well above 200 per cent. Including certificates of deposit, the ratio drops to about 180 per cent, 150 per cent and 140 per cent for the major banks, other domestic banks and foreign subsidiary banks respectively. Reflecting their reliance on deposits as the major funding source, non-bank ADIs generally have a lower coverage ratio for their deposit liabilities than locally incorporated banks.

Life insurance industry

Overview

As at June 2003, there were 40 registered life insurance companies in Australia. Total life office statutory fund assets backing Australian policyholder liabilities stood at $181.5 billion. Net premium flows (that is, premiums less policy payments) for the year ending June 2003 were negative $0.6 billion.

The top 3 life insurance groups account for 59 per cent of statutory fund assets backing Australian liabilities and 53 per cent of total premiums for Australian business, while the top 10 groups account for 93 per cent and 91 per cent respectively. The top 4 life insurance groups by assets backing Australian policy liabilities are: AMP 28 per cent, NAB/MLC 18 per cent, CBA/Colonial 13 per cent and ING/ANZ 11 per cent.

The foreign-owned life insurance groups hold a 29 per cent share in statutory fund assets backing Australian liabilities and a 32 per cent share in total premiums for Australian business, while the bank-owned life insurance groups hold a 40 per cent and 44 per cent share respectively.[1]

Asset profiles

At end-June 2003, investment-linked statutory fund assets were $116.3 billion (64 per cent of the total assets in life office statutory funds). The main asset categories were interest-bearing securities (17.4 per cent), equities and units in trusts (51.2 per cent) and assets held overseas (19.7 per cent).

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1 Australian Prudential Regulation Authority, Life Insurance Market Statistics, June 2003.

Non-investment linked statutory fund assets stood at $65.3 billion. The main asset categories were interest-bearing securities (39 per cent), equities and units in trusts (26.3 per cent), land and buildings (6.1 per cent), and assets held overseas (8.5 per cent).

Both types of funds also invest in cash and deposits, loans and placements and in commodities such as gold.

Superannuation assets (backing Australian policyholder liabilities) accounted for 86.1 per cent ($156.3 billion) of the assets in life office statutory funds as at end-June 2003. This compares to 60 per cent in June 1988.

Liability profiles

Total Australian life insurance policy liabilities underwritten were $155.3 billion as at end-June 2003. Individual policies represent 71.9 per cent of Australian policy liabilities with 28.1 per cent of policy liabilities underwritten as part of a group policy.[2] As a proportion of policy liabilities, the significant categories of business undertaken by life insurers are: investment-linked 41.3 per cent[3], group investment-linked 21.5 per cent, conventional 9.1 per cent[4], investment account 7.2 per cent[5], allocated annuity 6.9 per cent,[6] group investment account 5.7 per cent, term annuity 3.9 per cent[7] and lifetime annuity 3.7 per cent.[8]

Chart A shows the significant categories of business underwritten by the top 4 and top 10 life insurance companies. At end-June 2003, the top 4 life

2 This represents life insurance (usually without medical examination) for a group of people under a master policy. A group policy is typically issued to an employer for benefit of employees (for example, superannuation plans).

3 These policies provide a death benefit and an investment account the value of which is directly linked to the performance of a specific investment portfolio. The value of the policyholder's interest will rise and fall with the movements in the value of the portfolio.

4 This generally falls into two categories: (1) Whole of Life (policies which offer immediate and continuing cover payable on death) and (2) Endowment (policies which allow for payment on reaching a specified age or date, or on prior death). These policies normally have a surrender value after 2 years.

5 These policies provide a death benefit and an investment account where the insurer generally determines the earning rate credited to the account.

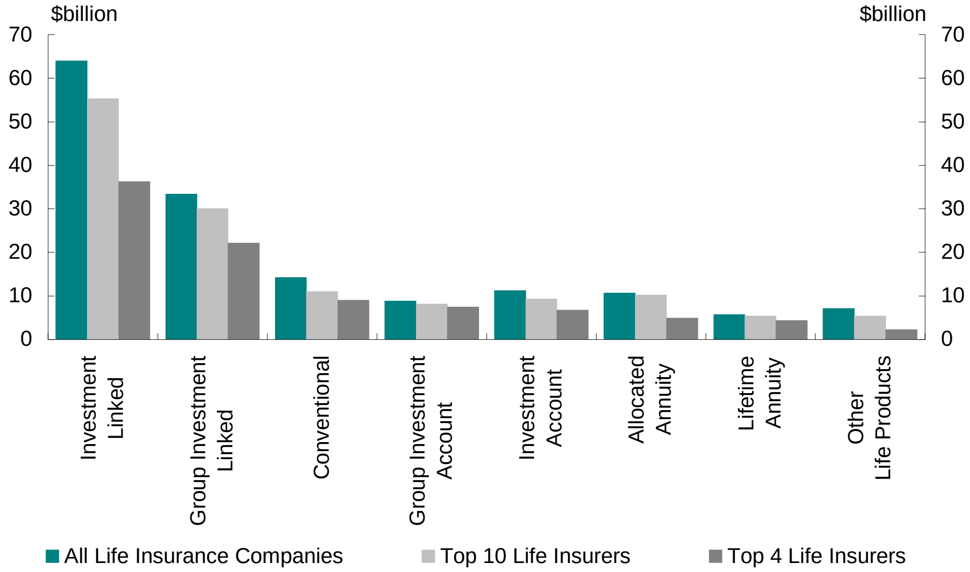
6 An allocated annuity provides an income stream and capital repayments until the capital is exhausted. The policyholder can withdraw lump sums, but there are restrictions on the minimum and maximum withdrawal within a period.

7 A term annuity provides an income stream and capital repayments for a fixed term. These are generally cheaper than a lifetime annuity. Generally there is no residual value.

8 Lifetime annuity provides an income stream and capital repayments while the policyholder is alive. Generally there is no surrender value available on these policies. However, some companies offer a residual capital value to be paid to any dependent. Typically, a lifetime annuity is purchased using a single premium. The income stream for the premium could be guaranteed or indexed.

insurance companies underwrote 59.5 per cent of Australian policy liabilities. The top 10 life insurance companies underwrote 85.6 per cent of Australian policy liabilities.

Chart A: Australian policy liabilities by product type



Source: Australia Prudential Regulation Authority.

Solvency margin

The weighted average of the solvency coverage ratio[9] for investment linked statutory funds was 2.5 and for non-investment linked statutory funds was 1.7 as at March 2002. The weighted average for the life insurance industry was 1.8.[10]

9 The solvency coverage ratio is a measure of the security of a life insurance company relative to the level of risk identified under the solvency requirement as prescribed by Life Insurance Actuarial Standard 2.03. It is calculated as assets available for Solvency Reserve divided by the Solvency Reserve.

10 Australian Prudential Regulation Authority Insight, 2nd Quarter 2003, Table D2 Life Insurers: Statutory-fund Solvency.

General insurance industry

Overview

The Australian general insurance industry is highly concentrated in both the direct and reinsurance sectors. Recent activity has seen the merger of the Insurance Australia Group (IAG) and CGU groups and the initial public offering of the Australian operations of the Royal and Sun Alliance Group (now Promina). These recent changes have followed several years of mergers and consolidation of insurers within the Australian insurance market. All of the top five insurers are listed: four are listed Australian insurers (IAG, Promina, Suncorp Metway and QBE) with Allianz being listed on the German Stock Exchange.

The two largest reinsurers, Munich Re and Swiss Re, account for over 60 per cent of Australian reinsurance premiums. Both are listed overseas.

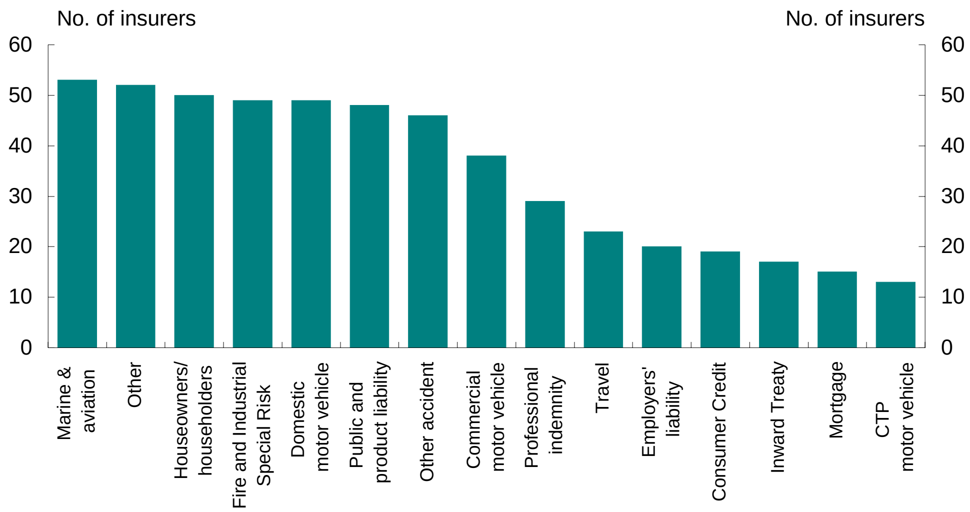
In some geographical markets, there are distinct market leaders within some classes of business, for example, Suncorp Metway dominates short-tail business in Queensland; similarly for IAG in New South Wales and Victoria. New South Wales and Victoria have the most insurers writing policies (94 in each), with the Northern Territory being the smallest with 40 (see Chart B).

Chart B: Insurers by State and Territory (as at June 2002)

Source: Australian Prudential Regulation Authority.

The number of insurers writing each class of business varies significantly: for example, 13 insurers offer Compulsory Third Party (CTP) motor vehicle insurance while up to 53 insurers write aviation and marine business (see Chart C).

Chart C: Insurers by class of business (as at end-June 2003)

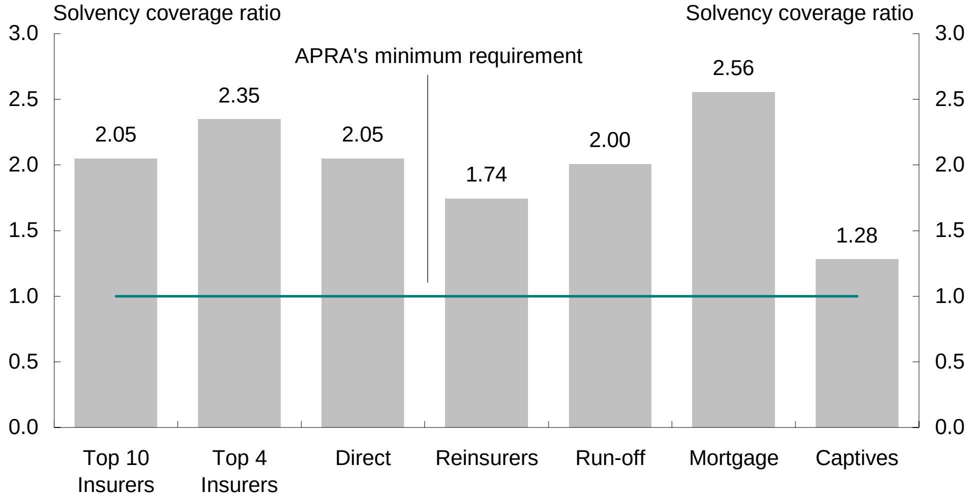


Source: Australian Prudential Regulation Authority.

Capital adequacy

The current solvency levels of general insurers are well above the minimum requirement of 1.0 stipulated by the Australia Prudential Regulation Authority (APRA), with the top 4 insurers holding more than double the required amount of capital between them (2.35). The direct insurers are dominated by the top 10 players and have a solvency coverage of 2.05. This is higher than the reinsurers, mainly due to the dominant reinsurance companies having overseas parents.

Chart D: Solvency coverage



Source: Australian Prudential Regulation Authority.

Captives unsurprisingly have solvency coverage barely above the minimum requirement as they are wholly-owned businesses limited to writing business to the parent company. The parent will therefore ensure that the capital required is available, but would secure any excess for themselves.

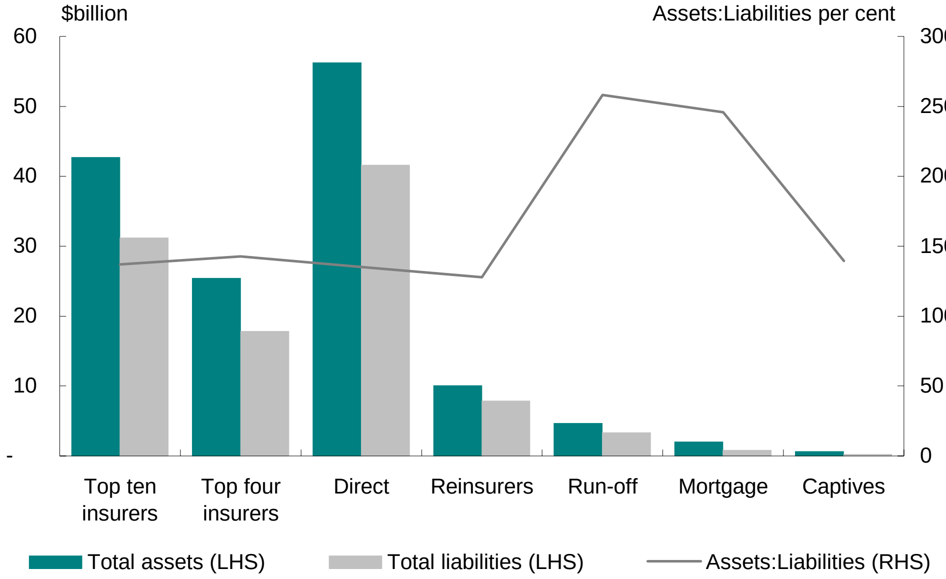
Asset and liability profiles

As at June 2003, total assets of Australian general insurers amounted to $73.6 billion. As shown in Chart E, assets are concentrated in a small number of direct insurers. The top 4 and top 10 insurers accounted for about 35 per cent and 58 per cent of total industry assets respectively. Direct insurers are by far the largest group holding 76 per cent of total industry assets, followed by reinsurers (14 per cent), run-off companies (6 per cent), mortgage insurers (3 per cent) and captives (1 per cent).

Against the $73.6 billion held in assets, the general insurance industry had total liabilities of $53.9 billion as at end-June 2003. These were spread amongst the types of insurers in very similar proportion to the asset base, with the top 10 insurers accounting for 58 per cent of the industry liabilities and the top 4 having just over a third at 35 per cent.

The asset to liability ratio for the industry is 137 per cent. This is higher for the top 4 insurers (143 per cent). Direct insurers and reinsurers have slightly lower ratios of 135 per cent and 128 per cent respectively.

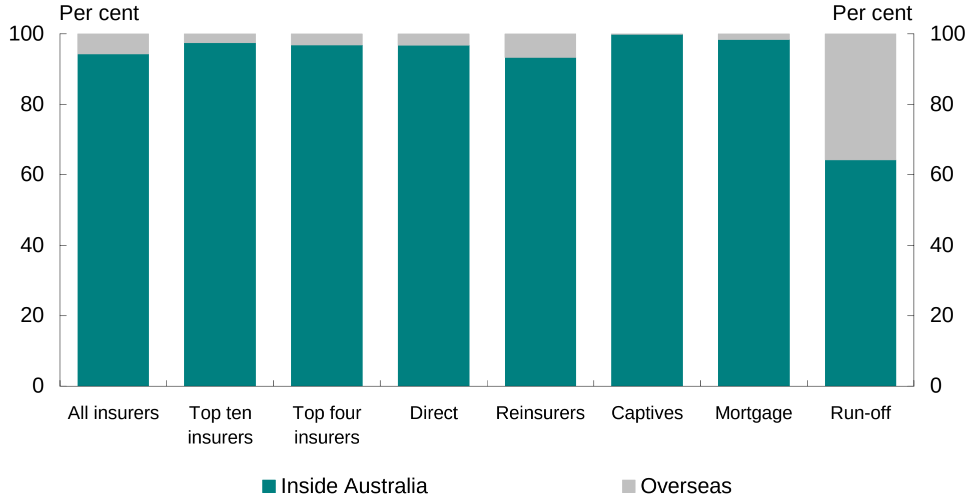
Chart E: Asset to liability comparison (as at end-June 2003)



Source: Australian Prudential Regulation Authority.

Ninety-four per cent of the industry assets are inside Australia (see Chart F). Of the 6 per cent of the industry assets held overseas ($4.2 billion), 39 per cent of these are held by insurers in run-off who are not licensed to write new policies.

Chart F: Asset location (as at end-June 2003)

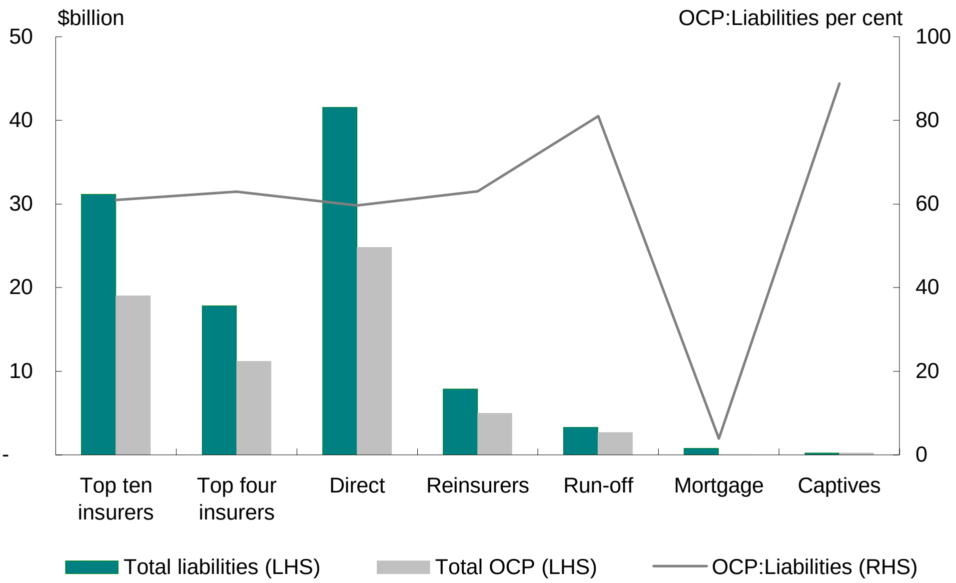


Source: Australian Prudential Regulation Authority.

Outstanding claims provision

Chart G shows of the total industry liabilities, $32.7 billion represent outstanding claims provision (OCP), of which 94 per cent is Australian based. The top 4 and top 10 insurers accounted for 34 per cent and 58 per cent of total industry OCP respectively. Direct insurers, as expected, have the largest OCP at $24.8 billion (76 per cent of total industry OCP), followed by reinsurers with $5 billion (15 per cent) and those insurers in run-off with $2.7 billion (8 per cent). Captives and mortgage insurers have negligible OCP.

Chart G: Outstanding claims provisions (OCP) (as at end-June 2003)



Source: Australian Prudential Regulation Authority.

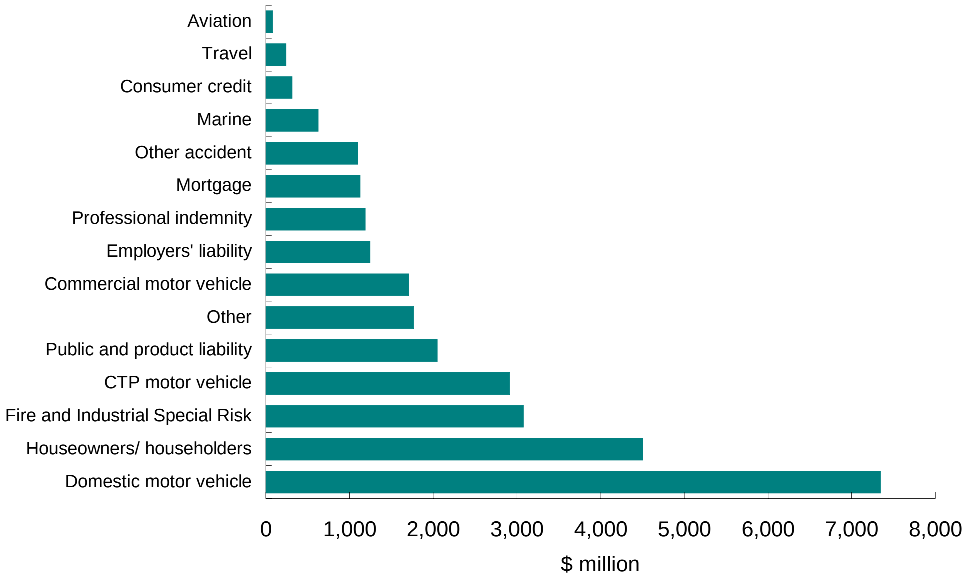
The ratio of OCP to total liabilities is 61 per cent for total industry, and this is fairly consistent across the major players, direct insurers and reinsurers.

Premium income

Chart H sets out premium by class of business. Total gross premium income of the industry in 2002-03 was $35.9 billion, of which the top 4 insurers collected $10.6 billion (30 per cent) and the top 10 insurers collected $20.7 billion (58 per cent). Direct insurers accounted for the bulk of premium income ($29.6 billion), followed by reinsurers ($4.3 billion), mortgage insurers ($1 billion), firms in run-off ($819 million) and captives ($170 million).

Domestic motor vehicle insurance was the dominant class of business accounting for 25 per cent ($7.3 billion) of total industry premium. This was followed by domestic householders with 15 per cent ($4.5 billion), Fire & Industrial Special Risk (ISR) with 11 per cent ($3 billion) and CTP with 10 per cent ($2.9 billion).

Chart H: Premium by class of business (as at end-June 2003)

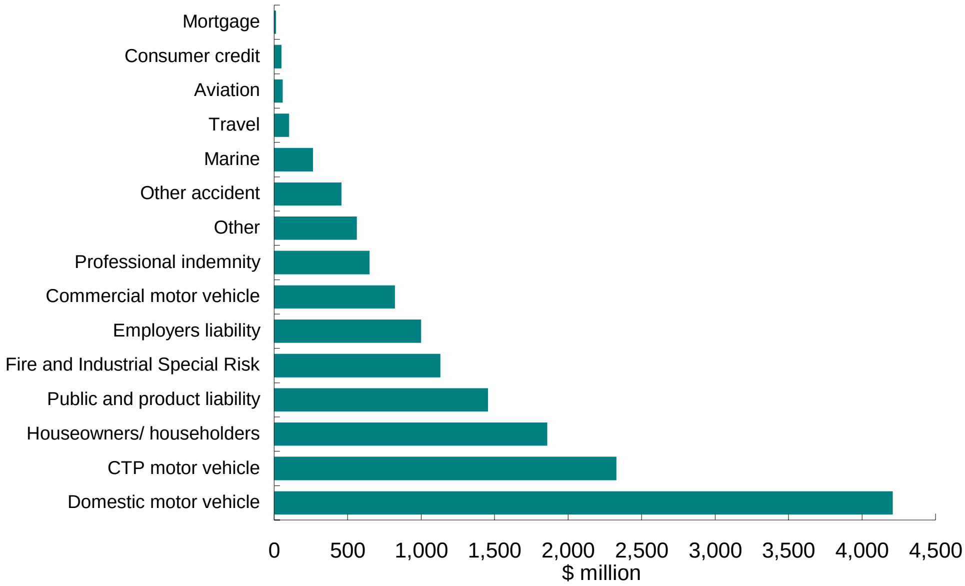


Source: Australian Prudential Regulation Authority.

Claims

Gross claims recognised by the industry in 2002-03 amounted to $27.8 billion, of which the top 4 insurers recognised $9 billion (33 per cent) and the top 10 insurers $16.6 billion (60 per cent). Claims recognised by direct insurers amounted to $23.4 billion, by reinsurers $3.2 billion, firms in run-off $739 million, mortgage insurers $395 million, and captives ($79 million). Chart I shows the breakdown of claims by class of business.

Chart I: Claims by class of business (as at end-June 2003)



Source: Australian Prudential Regulation Authority.

Superannuation industry

Overview

In June 2003, there were around 269,356 separate superannuation funds in Australia managing $533.9 billion in assets on behalf of 25.1 million member accounts. The overall number of funds is very large compared to the rest of the prudentially regulated financial sector (although the vast majority by number are regulated by the Australian Taxation Office (ATO)).

As outlined in Table G, over 99 per cent of superannuation funds are small funds that contain fewer than five members. In late 1999, the ATO took over the regulation of most of these superannuation funds, popularly referred to as small self-managed superannuation funds (SMSFs). Small funds that continue to be regulated by APRA must have an approved trustee and are now known as small APRA funds or SAFs. Overall, small funds represent a total of only 495,000 members, or less than 2 per cent of the number of individual superannuation accounts.

Table G: Australia's superannuation industry (June 2003)

Type of fund	No. of funds	Assets (AUD billion)	Accounts (millions)
Corporate	1,874	57.5	1.1
Industry	112	56.0	7.5
Public Sector	73	106.8	3.0
Retail	231	180.3	13.0
Small funds	267,066	109.1	0.5
Subtotal	269,356	509.7	25.1
Annuities, life office reserves etc	n/a	24.2	n/a
Total	**269,356**	**533.9**	**25.1**

n/a Not available.
Source: Australian Prudential Regulation Authority.

The remaining 2,290 funds are defined in terms of the *Superannuation Industry Supervision (SIS) Act 1993* as either standard employer or public offer funds (often referred to as funds with five or more members). These funds represent over 98 per cent of all member accounts.

In terms of industry structure, however, it is more meaningful to focus upon the categories of corporate, industry, retail or public sector funds. These functional categorisations for the 2,290 funds with five or more members better reflect how the superannuation industry itself operates in commercial reality.

Corporate funds are sponsored by a single employer or group of related employers. Industry funds, often organised through industrial workplace arrangements, cater for members as a result of an agreement between the parties to an industrial award. An individual industry fund usually draws members from a large number of employers operating in a single industry.[11]

Retail funds are publicly offered superannuation funds that members join by purchasing investment units or policies that are sold through intermediaries such as life insurance agents or financial planners. Members of retail superannuation funds typically include self employed people or people wishing to top-up their other employment based superannuation arrangements. Employers may also use retail superannuation products to meet their superannuation obligations in respect of their employees.

11 Some industry funds are open to membership by the public. Accordingly they are classed as public offer funds and operated by an approved trustee however, for some statistical purposes, they are classed as industry funds rather than retail funds.

For the year ending June 2003, aggregate contributions into superannuation funds amounted to $54.2 billion, while benefit payments amounted to $33.4 billion. Table H shows asset allocations as at June 2003.

Table H: Asset allocation (June 2003)

Assets	AUD billion	Per cent
Cash and Deposits	44	8
Loans and Placements	20	4
Interest-bearing Securities	88	16
Equities in Units and Trusts	238	45
Direct Property	31	6
Overseas	94	18
Other	18	3
Total	**534**	**100**

Source: Australian Prudential Regulation Authority.

The numbers of corporate, industry, public sector and retail superannuation funds have been in decline in recent years while the number of small funds continues to grow steadily.

Funds regulated by APRA

Table I: APRA regulated funds by asset size[12] (as at end-June 2003)

Funds with five or more members

	Multi member approved deposit funds	Public offer super funds	Pooled super trusts[13]	Other APRA-regulated funds	Total
> $1 billion	0	48	12	22	82
$500 million - $1 billion	0	31	9	23	63
$100 - $500 million	5	43	41	98	187
$50 - $100 million	0	24	27	80	131
$10 - $50 million	12	65	33	312	422
$5 - $10 million	6	36	9	156	207
$1 - $5 million	11	55	15	533	614
< $1 million	3	35	14	609	661
Total	**37**	**337**	**160**	**1,833**	**2,367**

Source: Australian Prudential Regulation Authority.
Note: Current funds as at end-June 2003 (last annual return lodged).

12 In this breakdown, industry funds are grouped under either public offer or other APRA-regulated funds.

13 Pooled superannuation trusts (PSTs) are wholesale investment management funds, regulated by APRA, and only available to trustees of complying superannuation funds, approved deposit funds (ADFs) and other PSTs (and some life office assets).

Table I: APRA regulated funds by asset size (continued) (as at end-June 2003)

Funds with less than five members

	Small APRA Funds	Single Member Approved Deposit Funds	Total
> $1 million	366	14	380
$500,000 - $1 million	940	22	962
$100,000 - $500,000	4,702	166	4,868
$50,000 - $100,000	859	21	880
< $50,000	1,126	33	1,159
Total	**7,993**	**256**	**8,249**

Source: Australian Prudential Regulation Authority.
Note: Current funds as at end-June 2003 (last annual return lodged).

Approved trustees

Approved trustees (individually approved under Part 2 of the SIS Act and meeting capital or custody requirements) are required for public offer funds, approved deposit funds, eligible rollover funds, small APRA funds and pooled superannuation trusts. There are currently some 160 approved trustees, many of them are subsidiaries of other APRA regulated entities such as life offices and banks. Based on Table I, over 8,500 APRA-regulated superannuation fund entities of varying categories are required to have an approved trustee. Only those approved trustees that meet the $5 million net tangible asset capital requirement in their own right (rather than relying on a parent entity or a custodian) may be trustees of small APRA funds. The top 20 approved trustees are responsible for the management of over 20 per cent of superannuation assets.

Funds categorised by benefit structure

Another noticeable trend over recent years has been the reduction in the number of defined benefit funds as employers close these and move members to accumulation funds. With defined benefit funds, the employer bears the investment risk, as opposed to accumulation funds where members bear all the risk, and their benefit is wholly related to their account balance. Table J shows funds by benefit type as at June 2003.

Table J: Superannuation benefit structure — funds with greater than four members (June 2003)

	Accumulation	Defined benefit	Hybrid	Total
	Number of funds			
Public Sector	42	19	30	90
Private Sector	1,585	261	354	2,200
Total	**1,627**	**279**	**384**	**2,290**
	Members (thousands)			
Public Sector	666	426	1,869	2,962
Private Sector	18,230	98	3,300	21,628
Total	**18,896**	**524**	**5,170**	**24,590**
	Assets ($ million)			
Public Sector	7,556	8,916	90,298	106,769
Private Sector	225,928	6,939	60,983	293,851
Total	**233,484**	**15,856**	**151,281**	**400,620**

Source: Australian Prudential Regulation Authority.