

APPENDIX 4.1: FINANCIAL FAILURE IN AUSTRALIA SINCE 1980

2000 to 2003

Time	Authorised deposit-taking institutions (ADIs)	General insurance	Life insurance	Superannuation
2003				
2002		United Medical Protection/Australasian Medical Insurance Limited (UMP/AMIL)		
2001		HIH Group of Companies (HIH)		Commercial Nominees of Australia PTY LTD (CNAL)
2000				
Events	General insurance: There were two major general insurance collapses during this period. HIH, Australia's second largest insurer and UMP/AMIL, providers of medical indemnity insurance. A hardening of the general insurance market also occurred resulting in problems of affordability and availability particularly in liability lines of business. Decreases in asset values internationally also impacted on global reinsurance capacity. There was domestic pressure to introduce tort law reform stemming from a perception of an increasing level of litigation and the high cost of claims payouts. In the cases of both UMP/AMIL and HIH the resulting collapses, however, were due to underprovisioning, particularly in the long-tail classes.			
Reform measures	General insurance: The Government specifically designed financial support measures to assist in both collapses. The major policy reform measures resulting from HIH included: replacing APRA's non-executive board with a full-time three person executive group who would carry the responsibility and be accountable for the operation and performance of APRA and enhancing of the role of the Council of Financial Regulators. Other general insurance reforms had already commenced prior to the release of the HIH Royal Commission report including: increased entry level capital requirement from \$2 million to \$5 million; minimum capital requirements more closely linked to the risk profile of individual insurers; improved consistency and reliability in measuring and reporting liabilities; and the introduction of a Risk Management Standard designed to ensure that an insurer is well-managed, has access to appropriate independent expertise and has systems for identifying, managing and monitoring risks. It also requires the board and senior management of an insurer to be subject to a 'fit and proper' test to ensure they are suitable to hold office. The major reform measures resulting from UMP/AMIL included bringing all Medical Defence Organisations within the prudential framework and a concerted effort by the Commonwealth to pursue nationally consistent tort law reform.			

Financial failure in Australia since 1980 (continued)

1990s

Time	Authorised deposit-taking institutions (ADIs)	General insurance	Life insurance	Superannuation
1990s	State Bank (Victoria) Tricontinental (Victoria) State Bank (South Australia) Pyramid Building Society	Greatlands General Insurance Motor Accident Insurance Mutual SSORC Insurance (QLD) New Cap Reinsurance Corp CEASA International Specialist Underwriters Property Marine Insurance Trans Pacific Insurance Trinity Insurance Greater Midwest Insurance National Employers Mutual (foreign-owned)	Occidental and Regal	One case of loss of majority of assets when employer sponsor went into receivership. ¹

1 Senate Select Committee on Superannuation.

Financial failure in Australia since 1980 (continued)

1980s

Time	Authorised deposit-taking institutions (ADIs)	General insurance	Life insurance	Superannuation
1980s	<p>Moe Credit Union</p> <p>Western Australian Teachers' Credit Society (taken over by State-owned Rural and Industries (R&I) Bank of Western Australia)</p> <p>Bank of Adelaide (taken over by ANZ)</p>	<p>Trans Tasman Insurance</p> <p>Intercontinental Reinsurance (Pacific)</p> <p>Crest Insurance Company of Aust LTD</p> <p>Bishopgate</p> <p>China Underwriters Life and General</p> <p>Fleet Motor and General Insurance Co</p> <p>Consolidated Insurances of Australia</p> <p>Sapphire Insurance</p> <p>Palmdale Insurance</p> <p>Dominion Insurance Company</p> <p>Service Extension Insurance</p> <p>TAB Agents' Company</p>		
Events	<p>Bank: Deregulation in the mid 1980s resulted in strong credit growth secured against increasingly overvalued commercial property. The late 1980s saw a combination of high interest rates and softening of commercial property market exposing poor credit quality of some risky loans. Public confidence deteriorated in 1990 and 1991 with some runs on small banks. While some of the large banks experienced losses, these were internally absorbed. State Banks, however, suffered the most.</p> <p>Life insurance: Occidental & Regal failed due to the aborted sale of two companies (Occidental and Regal) and the apparent misappropriation of policyholder's funds.</p>			

Financial failure in Australia since 1980 (continued)

1980s (continued)

Reform measures	<p>Bank: Policy reform of the banking and non-banking sectors generally reflected the changing nature of the sectors and both State and Federal governments withdrew from direct ownership of financial institutions throughout the 1990s. Prudential standards and capital adequacy requirements increased, as was occurring internationally at the time. The bringing together of all ADIs under the one regulatory umbrella following the Financial System Inquiry was a significant reform for the non-banking sector.</p> <p>Life insurance: Reforms were designed to improve supervision of companies and disclosure to the public. Measures included: disclosure requirements in respect of regular premium contracts and updating of promotional statement guidelines; introduction of quarterly returns whereby life insurance companies report on their investment risk exposures; and legislation to increase capital requirements, improve investigatory powers and provide for pre-vetting of changes in ownership or control of life companies.</p> <p>Superannuation: In 1992 the Government introduced a new supervisory framework emphasising that the primary responsibility for the prudential management of superannuation funds rests with the fund trustees and that the Government does not guarantee superannuation benefits.</p>
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