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Australia-India FTA Feasibility Study
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Dear Ms Robertson

MERITS OF A FTA BETWEEN AUSTRALIA AND INDIA

Thank you for your email message of 18 February 2008. The Insurance Council of Australia¹ (Insurance Council) appreciates the opportunity to comment on the merits of a free trade agreement (FTA) between Australia and India.

The key impediment facing members interested in general insurance opportunities in India is the restriction of foreign ownership in general insurers to a maximum shareholding of 26%. Such a restriction limits the willingness of a foreign partner to contribute to a joint venture, not only in terms of capital but also knowledge and experience. This restriction also significantly hinders the ability of the Indian general insurance sector to bring itself up to world standards of efficiency and customer service. In turn this reduces the effectiveness of the Indian general insurance in managing risk within the wider Indian economy.

The increase of the foreign ownership cap for general insurance to 49% has been discussed by the Indian Government for some considerable time. Insurance Council members would hope that if Australia enters into FTA negotiations with India, agreement could be reached that foreign partners be able to take a majority holding in a general insurance joint venture in India. To give certainty to all stakeholders, a definite timetable should be established for this to be achieved in stages.

Also of concern to Insurance Council members are a number of issues which, while not specifically trade barriers nor peculiar to general insurance, can have a major impact on a decision whether or not to enter the Indian market. These are:

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. 2007 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross premium revenue of \$28.2 billion per annum and has assets of \$82.2 billion. The industry employs approx 60,000 people and on average pays out about \$70 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

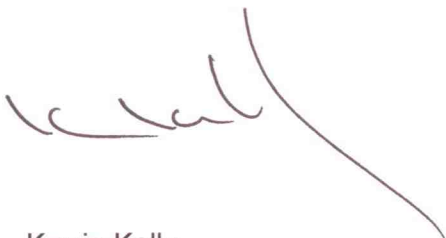
- **a simplified tax system:** a simpler tax system would have benefits right across the Indian economy in terms of giving greater certainty to business planning and freeing up resources currently used to understand and comply with complex tax laws, and where necessary to contest questionable interpretations by the tax authorities; and
- **streamlining of business processes:** a “one stop shop” approach to regulatory approvals would be a great boon to all businesses operating in India but particularly to foreign companies not used to operating in such a fragmented regulatory environment.

Also of concern, action on the following issues would facilitate general insurance business in India:

- **adoption of international accounting standards:** the difficulty of comparing the reporting on Indian insurers to accounts kept in accordance with international accounting standards hinders understanding of the financial standing of general insurance operations in India. For those foreign insurers operating in the Indian market, the application of unique Indian standards makes it necessary to operate, at considerable expense, two sets of books; and
- **change in requirements relating to auditors:** Indian accounting firms are restricted in the number of general insurance clients they can have and insurers cannot have the same accounting firm as an auditor for longer than three years. The Insurance Council respects the corporate governance objectives behind these requirements. However, given the small number of accounting firms able to effectively service large general insurance, these restrictions make it difficult for general insurers to engage an appropriate auditor and result in considerable costs in rotation of firms holding the position. The Insurance Council suggests that rotation of auditors occur every five years as in Australia and that rotation can take place between different partners of the same firm (also as practised in Australia) rather than having to be between different accounting firms.

The issues of concern to Insurance Council members are probably already well known to DFAT and Austrade. However, if you would like members to provide more detail on these issues, please contact the Insurance Council's General Manager Policy-Regulation, Mr John Anning, on tel: 02 9253 5121 or email janning@insurancecouncil.com.au

Yours sincerely



Kerrie Kelly
Executive Director and CEO