

Chapter 1

Introduction

Background

1.1 Australia's financial system remained stable during the current global financial crisis when many international banks have suffered serious difficulty or even collapsed. It is generally accepted that an important reason for this is the supervisory framework that successive governments have put in place. The Australian Prudential Regulation Authority (APRA) is well respected for its supervisory role.

1.2 This is a cause for satisfaction but not complacency. There are still areas for improvement. In particular, there is currently a gap in Australia's framework regarding non-operating holding companies (NOHCs) of life insurance companies.

Purpose of the bill

1.3 The Financial Sector Legislation Amendment (Enhancing Supervision and Enforcement) Bill 2009 seeks to align the regulation of holding companies of life insurance companies with the regulation of general insurers and financial intermediaries. It gives APRA the necessary powers to regulate the NOHCs in such a way as to avoid giving rise to unacceptable risks to the operations of the life insurance companies themselves.

1.4 As the Minister remarked when introducing the bill:

International experience has demonstrated the interconnection between companies in a corporate conglomerate, including between prudentially regulated entities and unregulated entities. This measure will strengthen the prudential regulation of life insurance conglomerates in line with the regulation of other financial conglomerates.¹

Conduct of the inquiry

1.5 The bill was introduced into the House of Representatives on 19 March 2009. On 19 March, on the recommendation of the Senate Selection of Bills Committee, the Senate referred the provisions of the bill to the Economics Committee for inquiry and report by 7 May.

1.6 The Committee advertised the inquiry in *The Australian* and on its website, and wrote to a number of relevant peak organisations inviting submissions. The Committee received four submissions (see Appendix 1), which are available at http://www.apr.gov.au/senate/committee/economics_ctte/inquiries.htm.

The Committee thanks submitters for their contribution.

1 The Hon. Chris Bowen, Minister for Competition Policy and Consumer Affairs and Assistant Treasurer, *House of Representatives Hansard*, 19 March 2009, p 3238.