IAG
Insurance Australia Group

20 July 2011

Ms Alison Burrows
Assistant Secretary
North Asia Investment and Services Branch
Department of Foreign Affairs & Trade
Alison.Burrows@dfat.gov.au

Dear Ms Burrows

Thank you for the opportunity of meeting recently with IAG representatives, Carolyn McCann, David Wellfare, Cecilia Warren and I, to discuss relevant issues in the Asian general insurance market operating environment. Please also pass on my thanks to John Larkin and Bradley Armstrong.

IAG would like to provide input to the Department of Foreign Affairs & Trade negotiations in the Australia-India Comprehensive Economic Cooperation Agreement. There are two key issues we wish to address:

- Raising the Foreign Direct Investment (FDI) cap from 26 to 49%; and
- Implementing a Social Security Agreement between Australia and India to overcome anomalies in the double payment for Australian expatriates of their Indian provident fund and Australian superannuation contributions.

IAG's interest in India

On 24 November 2008, IAG and State Bank of India signed a joint venture agreement to establish a general insurance operation in India. IAG will initially have a 26% stake in the venture. The joint venture agreement allows IAG to increase its shareholding to 49% subject to a change in the Indian foreign direct investment limit in the future. The joint venture company is called SBI General Insurance Company Ltd.

IAG has 4 years from that date (ie, 24 November 2012) to increase its shareholding to 49%, and IAG considers the proposed increase in the foreign ownership limit as a significant issue.

Foreign Direct Investment cap

We understand that India's Standing Committee on Finance (SCF) will soon conclude the formal review of the Insurance Act Amendments Bill (the Bill), first submitted to Lok Sabha (Upper House of Parliament) by the UPA Government in 2008. The Bill is a critical step in the incremental liberalisation of India's insurance sector and has been a top priority for foreign insurance companies since the legislation was originally drafted in 2004. Due to coalition politics and opposition from the Left, the UPA Government had been unable to move the legislation over the

Insurance Australia
Group Limited
ABN 60 090 739 923

388 George Street
Sydney NSW 2000
Australia

T +61 (0)2 9292 9222
www.iag.com.au

past three years. The Standing Committee's review, however, indicates that the Government is now serious about submitting the Bill to Parliament for a vote in 2011.

The SCF, which is dominated by the opposition BJP and Communist parties, is preparing a report on the Bill, which will be submitted to the Ministry of Finance. The Finance Ministry can choose to adopt or ignore any recommendations in the report before bringing the Bill to Parliament for a vote. The most important provision of the Act raises the current FDI cap from 26 to 49%. Unfortunately, industry groups in the US and Europe are hearing strong signals that the SCF may recommend against the FDI cap increase. SCF members (particularly from the Communist Parties) raised concerns in public meetings that foreign companies do not care about increasing insurance penetration in rural areas and that the Indian partners have sufficient capital for growth.

Social Security Agreement between Australia and India

IAG has up to 6 Australian expatriates in the joint venture company which are subject to the Provident Fund regulations in India.

The requirement has adverse implications on the cost of the on-going investment in the joint venture as well as reducing the attractiveness of posts to India for IAG employees temporarily working in India for the joint venture company.

IAG, under Australian law, is required to continue its contributions to the Australia superannuation fund nominated by our employees even when working on long term overseas assignment.

This occurs as a result of the salary paid to the employee in India being set at a level consistent with the local remuneration market (usually much lower than in Australia), and the balance of the employees 'normal' salary being paid in Australia with the associated superannuation contributions (in IAG's case this is 13%).

However, the Indian provident fund contribution is set at the total 'global' remuneration which includes the Australia component. The rate in India is 24% (12% by the employer and 12% by the employee). Hence, IAG is paying superannuation contributions twice, with little prospect of recovering the excess payments given the inability of the employee to access the Indian component on their return. Funds paid into the Indian Provident Fund by foreign workers are unable to be repatriated to the home country until a person has reached the age of 58.

We understand that the Australian Government is in the process of negotiating a Social Security Agreement between Australia and India, but this may take considerable time to implement. IAG is seeking to have this issue included in the negotiations process. It is in the interests of both nations to remove the pension contribution anomaly.

Summary

Insurance has an important social and economic role to play in ensuring sustainable economic growth and in protecting the well-being of populations. It is a significant source of funding for infrastructure development; it indemnifies risk; and it provides compensation for loss. With the increase in trade and investment between Australia and India, it is important to eliminate artificial barriers that inhibit sound business operations, increase costs and potentially impact further investment in this important financial services sector.

Yours sincerely

George Karagiannakis
Senior Advisor External Relations