

Australia's Export Inquiry
Productivity Commission
Locked Bag 2, Collins Street East
Melbourne VIC 8003
Attention: Dr Warren Mundy

Email: exportcredit@pc.gov.au

Date 19 March 2012

Dear Mr Mundy

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Zurich Australian Insurance Limited has been active in the credit and political risk insurance market in Australia since 2002. During this time, we have worked with EFIC on a regular basis, usually in the form of providing insurance for EFIC's loans into emerging market countries in support of Australian exports. Our support and that of other private insurers allows EFIC to multiply its credit lines available to Australian exporters. EFIC is one of many government export credit agencies (ECA's) that the global Zurich Group supports around the world.

We have found EFIC to be among the best of the ECA's in terms of commercial awareness and flexibility, due diligence of the risks they are taking, and sophistication of their documentation. They have experienced people with the skill to lead large, complex transactions, and they also have the service focus to cater to smaller firms and transactions. Given the level of expertise and service we have observed, we believe EFIC is a factor in Australia's overall export competitiveness.

With regard to the Productivity Commission's draft findings and recommendations, we would comment as follows on some points. Our failure to comment on a particular finding or recommendation does not mean that we necessarily agree with it: in some cases, our comment on one finding or recommendation can be applied to several.

- Draft Finding 5.2: We disagree with the assertion that "the decline in the provision of trade finance during the global financial crisis was primarily due to lower demand for traded products." In fact, private banks globally faced a liquidity gap that ECA's raced to fill. This is borne out in the data of the Berne Union:
<http://www.berneunion.org.uk/pdf/Credit%20insurance%20in%20support%20of%20international%20trade.pdf>.
- Draft Finding 6.2: We disagree that EFIC crowds out insurance. On the contrary, our experience is that EFIC has the ability to originate transactions that we would not otherwise see. On larger transactions, EFIC provides needed seed capacity in order to arrange large insurance syndications; EFIC's very presence in these transactions attracts significant capacity from the private market due to EFIC's reputation and Australian government backing.
- Draft Finding 6.4: In our experience, EFIC prices their risks adequately, in line with market norms. If they did not, we would not be able to support them.

- Draft Finding 8.2: We have not seen evidence of unsound prudential management.
- Draft Finding 8.4: As mentioned above, we have found EFIC's pricing to be in line with market norms. Other theories as to why their return on equity is lower than financial institutions may include economies of scale: EFIC's mandate is highly restricted so they will have lower revenue, causing higher operating expenses in percentage terms.
- Draft Finding 9.1: We do not view EFIC as a competitor but rather as a catalyst, originator, and partner.
- Draft Recommendation 10.4: In our view, EFIC can play an effective role in providing reinsurance to the private market, particularly in countries or debtors where private market capacity is very tight.
- Draft Recommendation 10.5: We would question whether EFIC can achieve a diversified portfolio with acceptable financial results if restricted to just three transactions per client.

Yours sincerely

Shane Doyle
CEO General Insurance
Zurich Financial Services Australia Limited