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Does Organizational Heritage Matter in the Development of Offshore Markets?
The Case of Australian Life Insurers

The globalization of financial markets over the past decade has focused the spotlight on the responsiveness of financial firms to international pressures. Insurance markets have traditionally relied on global networks not only to expand the insurers' sphere of influence but also to support domestic business. Until relatively recently, Australian insurance companies have not played a significant role in the development of international markets. However, in the last decade of the twentieth century Australian insurers ventured overseas on a scale without precedence. This article presents an historical perspective on the internationalization of the Australian life-insurance market with a view to understanding why these firms have been classified "late starters" in the internationalization stakes. In a broader capacity it provides insights into the impediments to overseas expansion and the forces encouraging or discouraging the development of cross border networks.

Insurance was one of the very first markets to develop on a global basis. A number of studies have demonstrated the link between insurance products and the growth strategies of insurance providers. Mira Wilkins traces the development of international insurance markets, pointing to how strategic insurance firms were in developing cross-border relationships and the value of these international markets to their bottom line. The British were among the first to build the insurance


business as a multinational enterprise. Barry Supple estimates that British companies were earning around 60 percent of total fire premiums in non-European markets by 1900. American and European insurers likewise have had a history of large international networks in the past. Robin Pearson and Mikael Lönnborg in their study of multinational property insurers remark on the range of countries exporting insurance in the nineteenth century. Insurers in countries such as the United Kingdom, Germany, France, the United States, Canada, China, and Japan, to name a few, extended their operations beyond domestic borders in the 1870s and 1880s. Although discontinuities occurred over time, they left a heritage in the countries where they located that has influenced the development of these local markets. Multinational insurance enterprises in this context have played an important role in developing national and international financial markets.

A review of the pattern of internationalization of insurance markets reveals certain trends that highlight the fluid nature of expansion paths. Pearson and Lönnborg identify three phases of offshore expansion by insurance companies, pointing out that the industry became truly global in the third phase after 1850. The push to acquire overseas markets increased from the mid-nineteenth century, driven initially by British fire offices and followed by a second wave of expansion by European and American companies. These companies were generally large composite stock companies selling fire and later other forms of property insurance. With the exception of three American offices, the export of life-insurance products did not meet with the same degree of success as non-life products.

In addition to European and North American markets, fire-insurance exports extended to Australasia, South America, Southern Africa, and the Asia/Pacific. Studies of specific markets highlight this expansionary phase but also point to the difficulties in maintaining links across great distances. Jeronia Pons Pons, in her study of the Spanish market, draws attention to the role of the changing regulatory environment that influenced exit decisions both in the exporting and host nation. She concludes that specialized companies that based expansion strategies on

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6 Ibid., 61.
8 These companies were the Equitable, New York Life, and Mutual Life; Pearson, ed., *The Development of International Insurance*, 15.
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scale factors left the Spanish market. General insurance companies that opted to diversify their operations remained. In the South African life-insurance market, the introduction of regulatory devices specifically restricting investment by life insurers provided the catalyst for foreign exits. Peter Borscheid points to a "globalization backlash" that witnessed a retreat from international markets in the interwar years. A major influence on the contraction of the international insurance trade was the rise of economic nationalism and accompanying protectionist policies that altered the regulatory environments in which exporting companies operated.

The patterns of expansion and retreat that are evident in the histories of many insurance markets indicate the complexities associated with establishing and maintaining international links. Understanding these links has become more important as the second wave of globalization, in the wake of market liberalization in the 1980s and 1990s, has once again seen the growth in cross-border trade in insurance markets. Despite ample research into the internationalization strategies of companies from leading insurance export nations, less is known about the factors influencing insurers in other nations either to participate or not in cross-border trade. In many of these countries insurers are now actively engaging in cross-border activities. Australian life insurers are a case in point. While historically these institutions have limited offshore activities, in the last two decades they have ventured abroad on a scale not seen previously. This article examines the impediments to adopting such strategies and explores what the strategies can tell us about the forces encouraging or discouraging the overseas expansion of insurance companies. It specifically questions why Australian insurers retained a local focus for so long, what factors led them to change this focus, and how their previous history helped or hindered overseas expansion.

Australian firms have been classified "late starters" in the internationalization stakes. Australia, while it has long received inward foreign direct investment (FDI), has lagged behind in terms of outward FDI. Analysis suggests that the combination of weak country-specific

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and firm-specific assets worked against outward FDI. A similar argument is that domestic factors constrained internationalization, and in turn inward technology flows and the dominance of foreign multinational enterprises influenced domestic factors. Sectoral analysis of the approach of different firms to internationalization points to a complex array of inducements and impediments to successful foreign expansion. This article investigates the factors that have influenced the ability of life insurers to compete in global markets and the bearing of their past heritage on this process. In doing so, it analyzes the internationalization path of Australian insurance markets. Previous studies have focused on the evolution of organizational structures in the domestic market. The current article builds on that work but specifically addresses the issues influencing the internationalization strategies within Australia’s largest life insurers with a view to providing further insights into the development of multinational insurance enterprises.

In the next section the article will review explanations of factors that influence the outcomes of globalization strategies. It will then consider the experience of the Australian insurance industry and link it to the preceding discussion. Finally, it will address the question of whether or not the past assisted or impeded the industry in implementing a modern global strategy.

**Perspectives on Internationalization Strategies**

A review of the literature on internationalization suggests a range of explanations for why firms may venture offshore. The lack of consensus highlights the complexities in understanding the motivations and actions of firms operating across borders. Broadly speaking, internationalization theories fall into several general categories. The transaction-cost and resource-based approaches focus on rational decision-making processes. The eclectic paradigm, as hypothesized by John Dunning, for example, argues that firms will undertake FDI if they possess ownership advantages that enable them to overcome the barriers to doing

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business outside their domestic sphere. On the other hand, a resource-based interpretation suggests that the possession of a unique set of capabilities or resources allows firms to gain an advantage in international markets. David Collis draws out the link between the firm’s past, arguing that its historical evolution constrains its strategic choice and outcomes. He nominates three essential elements—core competence, organizational capabilities, and administrative heritage—as having a bearing on the outcomes of globalization strategies. Collis further asserts that the economic-based and resource-based approaches can be seen as complementing each other. While the economic approach focuses on outcomes in the product market, the resource-based approach adds depth to this explanation through an analysis of the way in which resources are accumulated and used.

Alternative explanations concentrate on the processes of internationalization, focusing on the role of organizational learning. The Swedish models, such as explained by Jan Johanson and Jan-Erik Vahlne, suggest that the gradual acquisition and integration of knowledge about overseas markets allow firms to extend progressively into new markets. Another explanation of the firm’s ability to extend into international markets is that put forward by Christopher Bartlett and Sumantra Ghoshal, who have emphasized the concept of administrative heritage. According to this model, a company’s administrative heritage shapes its internal capabilities, which in turn constrain its ability to respond to the international environment. Differing development paths result in differing approaches to internationalization. Bartlett and Ghoshal point to the links between the internationalization strategy, the environment in which the firm operates, its structure, and management as determined by its administrative heritage. The most successful firms were those that were able to match the correct internationalization strategy to the environmental conditions of the market. However, the ability to do this was constrained by their organizational structure, which was a function of their cultural and physical heritage.

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18 Ibid., 65.
21 Collis, “Resource Based Analysis,” 52.
Since the 1990s the theoretical debate has broadened as the process of internationalization has entered a new phase. Peter Buckley and Mark Casson argue that previous explanations fail to take account of the growing volatility in the international business environment. They make the case for a more dynamic model. At the core of this approach is a focus on flexibility in explaining responses to the restructuring of international business and the emergence of new forms of enterprise. Changing research agendas have extended the models of internationalization, with the incorporation of new foci that include uncertainty and market volatility, new modes of business practice such as joint ventures, and the role of entrepreneurs.

Theories of internationalization have tended to concentrate on the behavior of manufacturing firms. The applicability of such models to service firms has been questioned. However, recent studies have found that these models can provide a solid foundation for understanding the strategic decisions of service industries. Rakshekar Javalgi, David Griffith, and Steven White, for example, have found that firm and location-specific factors are important in the internationalization of service firms. However, service firms are different from manufacturing firms in that they require less capital investment to expand overseas. This factor impacts on decision making within the firm, suggesting that the managerial attitudes have a strong impact on offshore expansion plans. Rodney Benjamin and David Merrett argue that Australian insurers were inward looking and highly conservative, which hampered their ability to internationalize. This tradition impacted managerial attitudes and only began to change in the 1980s. Much of this conservatism derived from the past development of the organization and the market in which it operated. It suggests that the historical context is important in understanding the international expansion path adopted by Australian insurers. In this respect, it is argued that three factors influenced the approach and outcome of the strategy. These were: the historical structure of the market, organizational history, and cultures and managerial capabilities.

The history of Australian insurance markets has been relatively unique in that, for many years, there was a separation between providers of life and general insurance. This division originated through market failure in respect to the supply of life insurance, leading to the establishment of mutual insurers who became the market leaders. A key aspect of this market failure was to do with the risks connected with the provision of life insurance. Henry Hansmann has argued that the mutual forms emerged in response to the failure of the market to provide the type of service consumers wanted. In this context, there were two significant issues: problems associated with contracting under conditions of uncertainty and those associated with ownership. A lack of accurate data on mortality rates and the inability to predict unforeseen contingencies over a substantial period of time increased the possibility of losses associated with life-insurance policies. While mutual insurers faced these same problems, they were able to overcome them more effectively. The absence of shareholder interests reduced the risk of opportunistic behavior on the part of the firm, allowing it to set premium rates high enough to cover worst-case scenarios. In the event that the risk was overestimated, the accumulation of reserves would be returned to policyholders in the form of bonus payments. The mutual form became a common structure in markets such as life insurance, where problems associated with asymmetric information and moral hazard were paramount. Australia in the colonial period was very much a frontier economy where such risks were higher than in the more stable British and European markets.

The nature of the regulatory environment reinforced the division between life and non-life providers so that the development paths of these two sectors of the insurance market have been very different. Likewise, the interaction with global markets and development of internationalization strategies has also been very different. This article focuses on the life-insurance market. Specifically, it explores the paths to international diversification taken by major insurers who counted their core business as the sale of life insurance.

Within the life-insurance sector, three phases in the development of international links can be identified. The first, from the birth of the industry to the 1950s, is marked by a limited international interaction both in respect to the presence of overseas firms in domestic markets

and vice versa. The second, from the late 1950s to the 1980s, witnessed an increase in the international dialogue with the entrance of a number of overseas firms into the Australian market. The third, dating from the mid-1980s, was associated with the rapid offshore expansion of major Australian life insurers.

**Phase One: Limited International Interaction.** The earliest life insurers to operate in the Australian market were branches of British companies. However, these firms did not flourish and exited the market soon after establishment. A key factor in their demise appears to have been the failure of their agency-based marketing system that relied on customers applying for a policy rather than the agent actively selling policies. More generally, the underdeveloped nature of colonial economies at this time meant that the market for such products, apart from being very risky, was quite limited in size.

The impetus of the gold rushes of the 1850s in promoting population growth and industrial development provided the catalyst for the expansion of the life-insurance market. Between the 1860s and 1890s, the Australian colonies experienced a sustained economic boom. Real gross national product (GNP) grew at an average of 4.8 percent and per capita real GNP by 1.3 percent between 1861 and 1889. Economic growth was also associated with the urbanization of the colonies and the growth of major population centers, providing a ready market for insurance products. It was during this time that the local insurance market developed. Of significant importance to the future development of the industry was the emergence of mutual life insurers. Where private providers had been unable to fulfill the needs of the market, mutuals thrived and rapidly grew to become the market leaders.

In the 1860s there were around eighteen British companies with either agencies or offices in Australia, but their presence in the life market was limited. By 1890 most had exited leaving only three remaining, and they were not writing new business. The progressive exit of British companies from the Australian market was reinforced by the increasing success of local mutual societies. The Australian Mutual Provident Society (AMP) was the first mutual to establish in Sydney, New South Wales, in 1849. In the late 1860s the Mutual Life Association of Australasia and the National Mutual Life Association were formed, followed in the next decade by the Colonial Mutual Life, the Temperance and General, and several smaller and more specialized mutual societies.

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29 Ibid., 23.
The number of local stock life insurers was limited, with only four of any consequence in operation. Their focus was primarily on short-term insurance, and they did not actively engage in selling life insurance to the extent that the mutuals did.

By 1880 the seven mutual insurers accounted for more than 80 percent of new policies sold. This established the pattern of industry dominance by mutuals for the next century. Amalgamations and mergers between large and small mutuals reduced the number to five major mutuals by the turn of the twentieth century. These firms accounted for more than 80 percent of industry assets, a ratio that was maintained until the late 1970s. Limited inward foreign direct investment occurred from two sources: the New Zealand Government Insurance Office (NZGIO) established in 1869 and a small number of American insurers who entered the market in the 1880s. The New Zealand Government Office did a small amount of business in the Australian colonies. Its significance lay in providing an incentive for Australian companies to expand their own operations in New Zealand. Three large American life insurers—New York Life, Equitable Life, and Mutual Life of New York—commenced selling policies in the Australian colonies in the 1880s. While these insurers were initially quite successful, they were unable to make sustained inroads into the market share of the large mutuals. By the turn of the century, the costs of supporting the Australasian business were impacting profitability. Trouble on the home front, in the form of the Armstrong Inquiry, commissioned to investigate the conduct of life insurers in the state of New York, triggered the Americans’ exit from the Australian market.

Two factors impacted on the success of American insurers in building their businesses in the Australian colonies. The first was that the insurance products they sold were more restrictive than those marketed by Australian firms. Australian life policies were among the most liberal in English-speaking countries. Australian offices were the first to introduce non-forfeiture provisions: for example, they had relaxed conditions relating to travel and also provided loans to policyholders based on the value of their policies. The American offices brought with them tontine products which they had successfully marketed in other

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32 Few records of life-insurance companies have survived. Gray’s review of post office directories lists several others, which were of a transitory nature, not surviving for more than a year or two at the most. Ibid.
34 Calculated from the returns of Australasian life insurers as listed in the Australasian Insurance and Banking Record (Melbourne, 1881).
35 Previously a policy holder who defaulted on a premium payment forfeited the total value of his policy. Under the non-forfeiture provision a policy could not lapse as long as there were sufficient funds from the surrender value to pay the premium.
countries. In Spain, for instance, the sale of tontine products allowed American companies to become leaders in the life-insurance market. These products met with a moderate degree of success in Australia. Their reputation suffered under a concerted public attack from the managers of the AMP, the largest life insurer. A vitriolic twenty-year war of words in the press between the AMP and its American competitors dampened consumer enthusiasm for tontine insurance. Some local companies set up their own types of tontines, but the system did not meet with the success that it had in other markets.

The second factor influencing the success of American insurers in Australia was the extent of competition from local firms. Morton Keller makes the point that nowhere else were local offices more progressive and nowhere did the large American offices meet with such stiff competition as in Australia. British offices, such as the Standard Life, reported similar experiences. The Standard Life decided against opening a branch in Australia in the 1890s because of local opposition from mutual companies.

The range of products offered by life insurers expanded as life offices grew and actuarial practice became more advanced. Endowment policies, as opposed to whole or life policies, became increasingly popular in the late nineteenth century, introducing a savings element into the life-insurance policy. This was a trend evident in Britain and emulated in Australia, where it grew rapidly. Actuarial developments and the construction of more accurate mortality tables allowed further scope for refinement of life policies. By the 1880s it was possible to take out life policies with profits or without profits, term policies and policies allowing for a form of income protection. Industrial insurance was first sold in Australia in 1884 and also grew over the next two decades. The

36 Tontine policies represented a pooling of funds among a group of life insurance policy holders for a specific period of time from between ten to twenty years. The policy benefits of those who died during this period were redistributed to surviving policy holders.


41 Whole life policies were insurance contracts which paid an agreed sum on the death of the policy holder. An endowment insurance contract paid a lump sum either on death or the maturity of a contract which specified that contributions be made for a certain number of years.


43 Industrial insurance was first introduced in Britain in the 1850s. Industrial insurance policies were small-value policies paid by weekly or monthly premiums and targeted at lower income groups.
per capita sale of insurance policies in the Australasian colonies in the 1880s outpaced that in Britain. In Australasia, premium income increased at an average rate of 8 percent between 1884 and 1889, compared to an average rate of 2.5 percent in Britain. The expansion in premium income was associated with the growing sophistication of life-insurance organizations that were evolving as financial intermediaries. Branch networks expanded but the focus remained on the domestic market.

Foreign direct investment by Australian life insurers was limited at this point. One reason for this was that the domestic market was growing at a sufficient pace to provide more than adequate returns for local firms. The degree of competitive pressure felt in other countries, such as Britain and the US, was not evident in the Australian market and did not provide the impetus to search for other opportunities. Two of the major mutuals ventured overseas in their first few years of business and proudly proclaimed their international network. In reality though (with the exception of New Zealand), this was a strategy designed to provide services to Australians abroad rather than expand market potential. The path of expansion followed the passenger-shipping route between Australia and London, later detouring to closer Asia/Pacific markets. The Colonial Mutual opened branches in South Africa and an agency in Fiji in the 1870s and 1880s. The National Mutual followed a similar pattern, with branches in South Africa and London and agencies in Ceylon and Fiji. The largest life insurer, the AMP, lagged behind its rivals in expanding overseas. The management of the AMP originally planned to open a London branch in 1886; however, policyholder resistance delayed the opening until 1908. At the heart of the opposition was the question of whether or not such expansion was in the best interests of these policyholders. Legal opinion suggested that overseas expansion was against the spirit of the original statute of incorporation. A key issue in the debate was the level of risk associated with the operation of the office in another country. It was thought that mortality rates were higher in Britain than in Australia and that this would increase the liabilities of the Society. The sentiment expressed was that the AMP should remain focused on its Australian constituency and not look further afield.

The exception to the rule in the development of cross-border markets was New Zealand. Branches of all major life insurers were opened in this country in the 1870s and 1880s with the general acceptance of policyholders. One explanation for this is that in the days before the proclamation of nationhood, Australians and Australian businesses saw

\[44\] Gray, Life Insurance, 49.
\[45\] Blainey, History of the AMP, 149–50.
\[46\] Australasian Insurance and Banking Record, 13 May 1886.
themselves as part of the Australasian colonies.\textsuperscript{47} The commercial links between the two countries were a lot closer than they became later in the twentieth century and the interaction between managers of colonial insurance companies a lot more frequent.\textsuperscript{48} There was a perception that New Zealand was a local market and that the links between branches there and the head office were as easily maintained as in other Australian colonies.\textsuperscript{49} A further factor in stimulating the establishment of branches in New Zealand was the participation of government in the life-insurance market. The New Zealand Government Life Insurance Office operated in direct competition with mutual insurers in both that country and Australia. Concern over the potential of this organization to gain market share was undoubtedly a consideration in the decision to extend branches in New Zealand.\textsuperscript{50} By 1885 the NZGIO was the second largest Australasian insurer in terms of assets, nearly double the size of the National Mutual Life Association, Australia's second largest insurer.\textsuperscript{51}

The level of outward FDI continued to represent only a small proportion of industry income until the mid-twentieth century. In contrast to American and British companies, who generated an increasing amount of their income from overseas direct investment, there was not the imperative for Australian insurers to venture far from home.\textsuperscript{52} The growth of population and expansion of the domestic economy ensured that the domestic demand for life insurance was growing at a sufficient rate to support the local industry. Unlike British and US markets, where competitive pressures domestically forced insurers to look offshore, the Australian market had sufficient levels of demand to satisfy local supply.

\textit{Phase Two: The Expansion of Inward FDI.} Until the 1950s there had been a clear separation between life and general insurance providers. For the most part, life-insurance firms did not sell non-life insurance and vice versa. This division was broken in 1957 when the British firm, the Legal and General, a large composite company, applied

\textsuperscript{47} For example, the leading banking and insurance journal was the \textit{Australasian Insurance and Banking Record}, which reported in depth on financial conditions in both countries.

\textsuperscript{48} An example of the link in insurance circles can be seen in the formation of the New Zealand tariff system in the 1890s. The meetings of New Zealand insurers responsible for forming the tariff association took place in Melbourne rather than a New Zealand city. At this point Melbourne was the recognized center of the Australasian insurance market.

\textsuperscript{49} See note 48 above.

\textsuperscript{50} \textit{Australasian Insurance and Banking Record}, 14 July 1885.

\textsuperscript{51} Ibid., Jan. 1885.

\textsuperscript{52} For example, the New York Life did almost one-third of its business overseas in 1885. Wilkins, "Multinational Enterprise in Insurance," 338.
for a license to sell life insurance in Australia.\textsuperscript{53} The move sparked a flood of further license applications, principally from other general insurers. British composite insurers had long had a presence in the general insurance market, but it wasn’t until the 1950s that they made a concerted push into the life-insurance market. Within five years, the number of overseas representatives had risen from eight to twenty-five.\textsuperscript{54} By 1962 the life market consisted of a number of British insurers as well as representation from the Netherlands, Switzerland, and New Zealand. Most of the new entrants, however, were British firms.

By 1973 the number of foreign-controlled firms had risen to thirty-six, compared to fourteen Australian-owned entities. However, these foreign entities represented a much smaller proportion of the market. Their share of premium income was a bit over 19 percent and share of total assets about 13 percent.\textsuperscript{55} The market share of foreign-owned companies remained small, but the Australian market was increasingly seen as a potential destination of interest for foreign insurers.\textsuperscript{56} Aside from establishing a subsidiary company, the most popular method of foreign direct investment was to acquire a registered Australian company. Mergers and acquisitions of smaller local life insurers increased with the growth in foreign participation. The issue of foreign takeover, however, was a matter of concern for the government of the day. In 1968 foreign interests viewed with concern the actions of Prime Minister John Gorton in preventing the possible takeover of one of the larger insurers, the MLC Ltd., by the British firm Sun/Alliance. He signaled to the market that foreign investment was welcome up to a point.\textsuperscript{57}

Australian life insurers reacted to increased competition from overseas providers by diversifying their operations. Diversification occurred initially in response to the entrance of general insurers into the life-insurance market. Within five years of the registration of the Legal and General as a life insurer, all major life insurers had established general insurance subsidiaries. This shift into the general insurance market was a stepping-stone for life insurers who then used the same model to shift

\textsuperscript{53}Like many British companies, the Legal and General first entered the Australian market in 1948 selling general insurance before moving across into the life-insurance market. One motivation for this shift was the growth in pensions insurance after World War II. The Legal and General was a leader in the provision of this type of insurance in the United Kingdom and was so successful that it moved from the tenth to the second largest insurer between the 1930s and 1950. Leslie Hannah, \textit{Inventing Retirement: The Development of Occupational Pensions in Britain} (Cambridge, UK, 1986), 37–38.

\textsuperscript{54}Life Insurance Commission, \textit{Annual Report} (Canberra, 1962).

\textsuperscript{55}Gray, \textit{Life Insurance}, 257.

\textsuperscript{56}Swiss Re, Australian Reinsurance Company, General Manager’s Report 1967, Ms 10.169577.05, Swiss Re Archives, Zurich.

\textsuperscript{57}Swiss Re, Australian Reinsurance Company, General Manager’s Report 1968, Ms 10.169577.06, Swiss Re Archives, Zurich.
into other financial markets. Before long, the main life-insurance companies had subsidiary finance companies, money market corporations, superannuation funds, and building societies. Notably, however, the focus was on building domestic rather than international markets. The main center of overseas attention continued to be the New Zealand market, where Australian life insurers accounted for the majority of policies sold.

Phase Three: The Internationalization of Australian Life Insurers. The impetus to increasing outward FDI that marked the third phase of the internationalization process arose as a consequence of the deregulation of financial markets. The dismantling of the regulatory controls that had influenced market activity for the previous three decades marked the decade of the 1980s. The focus of regulatory control after 1945 had been on the banking sector that had been heavily restricted in the types of activities it could undertake. Deregulation had wide-ranging implications for Australian financial markets. The lifting of controls reduced barriers to entry and market segmentation, creating opportunities for the development of new institutions that no longer focused on the provision of one type of product. The emergence of financial conglomerates providing a wide range of financial services was an outcome of this process.

The restructuring of the financial sector had major implications for insurance markets and insurance providers. Within the life-insurance market, the reduction in barriers to entry allowed institutions such as banks to compete directly with established firms. In 1985 the first of the big four Australian banks entered the life-insurance market. Within four years all major banks had acquired registration to sell life-insurance products. These banks were able to make use of existing branch networks to sell insurance products. This allowed them to acquire market share rapidly. Five years after entering the market, the largest three Australian banks were ranked within the top ten life insurers with respect to new business.

Concurrent with an increase in competition, the demand for traditional life-insurance products was also in decline, placing pressure on the margins of the long established insurers. The value of ordinary life-insurance business fell from A$1,090 million in 1989 to A$172 million in 1995. The trend away from the conventional life insurance began in

61 Previously, bank-owned subsidiaries had operated in insurance markets, but they were restricted from fully utilizing banking networks.
62 AMP, Principal Board Minutes, Appendix E, 26 June 1996, AMP Archives, Sydney.
the 1970s when inflation began to erode policy values. It gained momentum as new products such as investment-linked policies became more popular in the 1980s. It accelerated further with the introduction of compulsory superannuation in the 1990s. The rapid fall in demand was attributed to the public's loss of confidence in the product and the increasing attractiveness of new alternatives such as unit trusts. The magnitude of the change placed additional pressures on life insurers to seek alternative strategies to maintain their competitive position.

The increasing influence of large competitors (such as banks) in the life-insurance market was a major catalyst in the decision by established life insurers to look for opportunities offshore. In the view of one major insurer, prospects for expansion in local markets (Australia and New Zealand) were limited. In this context, the decision to expand into international markets was driven by local considerations in a bid to retain their relative market position.

From the mid-1980s the major Australian life insurers began to investigate the potential for development of overseas operations. The wave of expansion gained momentum during the 1990s with each of the major players adopting a different method of expansion. The AMP, which traditionally had only a very limited exposure overseas (London and New Zealand), took the decision to focus on expansion, primarily in the United Kingdom, where it acquired two British life insurers in the late 1980s. The rationale behind this decision was that it was a familiar market with fewer cultural and language differences. It was assumed that these factors would lead to market synergies, which would allow for a more rapid expansion of market share. The principal method used to establish in this market was acquisition. The focus was on targeting similar businesses that were undervalued. The first business acquired in this manner was the British life insurer, the Pearl. London Life was the second acquisition. A limitation of the acquisition path to expansion was that the acquirer had to have the strategic competencies required; firstly, to identify viable targets and secondly, to manage acquired firms effectively. In the case of the AMP's acquisitions at this

63 Compulsory superannuation, where all employers were required to deposit a proportion (a minimum of 9 percent) of salaries into their employees' pension fund, was introduced in 1992. Most superannuation policies had a life-insurance component, reducing the need to take out separate life insurance.

64 AMP, Memorandum for Principal Board, 19 Feb. 1987, AMP Archives, Sydney.

65 The major life insurers in this context are defined as those whose core business is derived from the sale of life-insurance products and are listed in the top twenty life insurers in terms of assets in 1990. The firms identified were the three mutuals, AMP, National Mutual Life, and Colonial Mutual. The remainder of the top twenty consisted of nine overseas, four general insurers, three bank-owned, and one other (owned by a property management company).

time, neither the Pearl nor London Life lived up to expectations. London Life, which was acquired in 1989, was closed to new business in 1995 as a result of poor performance. Pearl also performed poorly and went through several reviews before a full-scale reconstruction of the United Kingdom portfolio led to its integration with other British interests into a newly formed division: UK Financial Services. Similar experiences with other British acquisitions, including the National Provident Institution and Hendersons Global Investments, meant that the overseas acquisition strategy of the AMP at this time was far from successful. In 2003, for example, the performance of British interests of the AMP were responsible for an A$5.8 billion loss, the worst loss in Australian corporate history.

Attempts to expand into other markets were also not successful. The AMP attempted to establish a presence in Hong Kong and Indonesia in the mid-1990s. However, it did not retain a presence in these countries for long. The Hong Kong market proved too competitive, and the AMP was not able to establish the market share it expected. The Indonesian experience, on the other hand, highlighted the pitfalls of venturing into a market the company did not fully understand. The business in Indonesia was conducted through a joint venture agreement with a local bank. The breakdown in the relationship between the two partners, exacerbated by cultural differences, was a key factor in the decision to leave that country. By 1996 the AMP had divested its interests in both these countries as part of a restructuring of its international strategy.

Both the National Mutual and the Colonial Mutual had a broader approach to FDI. The primary method of expansion used by the National Mutual was to establish new enterprises in selected countries. A secondary strategy was to develop joint ventures with indigenous suppliers. This was the case in Indonesia, the Philippines, and South Korea. In 1990 the National Mutual had interests in New Zealand, Hong Kong, the United Kingdom, Ireland, and the United States. In 1993 it implemented an Asia/Pacific-based strategy and sold interests in the UK, Ireland, and the US to support this strategy. From that date the company progressively increased its presence in the Asian region, listing firstly on the Hong Kong stock exchange (National Mutual Asia Ltd). Within three years it had interests in nine Asia/Pacific countries. A limitation

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of the approach adopted by the National Mutual, however, was the creation of brand loyalty in these new markets. The National Mutual overcame this problem to a certain extent when it took over the running of Asian business of the firm AXA. While this strategy solved one problem, it created other pressures for the National Mutual. The French-based company AXA bought into the National Mutual in 1996 as a means of extending its Asian business. Its majority shareholder subsumed the National Mutual identity and rebadged it as AXA Asia/Pacific in 2000. The National Mutual lost much of its corporate identity when this occurred.

The Colonial Mutual had operations in the United Kingdom, New Zealand, Southern Africa, and Fiji. In 1990 it commenced its first foray into Asian markets by establishing a presence in Hong Kong through a joint-venture arrangement. The company used this approach to develop markets in Indonesia, Singapore, and the Philippines from 1993. By 1997 it had a presence in six Asia/Pacific markets. Direct ownership increased as the company began to buy out its joint venture partner progressively, beginning with the Hong Kong arrangement in 1997. The overall strategy adopted by the Colonial Mutual was different from that of the other major life insurers. In 1994 it acquired Australia’s fifth largest bank, the State Bank of New South Wales, creating a conglomerate structure that it later built on to diversify into other financial markets. A result of the merger process was the demutualization of the insurer, which listed as a public company in 1997. The banking arm of the organization represented a significant component of company assets. At the time of the merger with the State Bank of NSW, banking assets represented A$19 billion while insurance assets were A$13.9 billion. It is not surprising in the aftermath of the acquisition that there was a refocusing of corporate strategy to take advantage of these assets. The Colonial was the first of Australia’s large financial institutions to adopt the New Zealand firm Allfinanz’s strategy, integrating the production and distribution of financial services through its banking networks. It also applied this strategy to its international interests, allowing a broader marketing base with which to operate in overseas markets. The reorientation of focus towards the utilization of banking assets and the development of an Allfinanz approach made the organization susceptible in the domestic market. The pressure within the financial sector to build a diversified portfolio of business interests resulted in the emergence of large financial conglomerates, a trend growing in momentum

70 The Age, 14 Nov. 2009.
throughout the 1990s. The impetus to build size and scope through merger and acquisition continued throughout the 1990s. The Colonial itself became the target of such a strategy when the Commonwealth Bank acquired it in 2000.

The Impact of Past Heritage

Three factors have been influential in the historical development of the Australian life insurers and their ability to develop the knowledge base needed for successful overseas expansion. These are the structure of the domestic market, the predominance of mutual associations over a considerable period of time, and the capabilities of these firms that would allow them to manage offshore interests effectively.

The early success of mutual life-insurance societies from the 1860s to the turn of the century ensured their place as market leaders for many years to come. Within the small domestic market they were the giants of the industry, making it difficult for new entrants to capture any sizeable share of the market. The major mutuals accounted for in excess of four-fifths of industry assets, leaving the remaining one-fifth to be shared among several small private insurers, one government insurer, and three overseas insurers. The loyalty of consumers to indigenous insurers, particularly the mutuals, created a barrier that was difficult to overcome. Geoffrey Blainey remarks that nationalism was stronger in business than the arts and that, by the end of the nineteenth century, Australians had developed a preference for doing business with their own financial institutions. The status quo remained unchallenged until the late 1950s, when the Legal and General applied for registration to sell life insurance. During this time, domestic market conditions and the inherent conservatism of mutual insurers combined to restrict the development of international links. In the postwar period Australia experienced what has been termed “the long boom.” The average rate of growth in GNP was 3.9 percent between 1940 and 1970, the population nearly doubled from just under 7 million to 12.4 million, and real income per capita increased, more than doubling in that time. The growth of the economy provided the scope for expansion in domestic life-insurance demand that was sufficient to support supply without creating undue competitive pressures.

Although the entrance of foreign insurers and general insurers opened the life-insurance market up in the 1950s, it did not challenge

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72 Blainey, A History of the AMP, 71.
the large mutuals, which were recognized as market leaders. The numbers of registered life insurers increased in absolute terms but the relative size of new competitors did not. In 1960 the five mutual offices accounted for 80 percent of industry assets and the remaining fourteen registered insurers, 20 percent. By 1980, four mutual offices accounted for 69 percent and forty-three non-mutuals 31 percent. The majority of non-mutuals were either foreign-owned subsidiaries or companies acquired by overseas firms. This was a trend that persisted over the next decade.

In 1990 there were fifty-six registered life-insurance providers in Australia. Thirty-one of those registered were subsidiaries of overseas firms. Of the twenty-five remaining, only seven counted their core business as the provision of life insurance. Among the largest insurers in this group were the three mutual insurers, who accounted for 72 percent of industry assets. The Australian life-insurance market was relatively small, and the majority of local firms operating in the market were small as well. The capability of these firms to expand beyond domestic boundaries was limited.

Of the Australian life insurers, the three major mutuals were the best placed to develop overseas interests. They were well established and large enough to sustain this type of expansion. However, they appeared to have little interest in doing so until domestic competitive pressures mounted in the 1980s as banks made greater inroads into their traditional markets. The experience of policyholder opposition to the AMP efforts in attempting to establish its London office serves to highlight the quandary faced by these organizations. As custodians of the mutual assets of their members, they were required to ensure their actions did not put these assets at risk. This explains in part, why these organizations limited the geographic spread of outward FDI.

A third factor impacting on the ability of life insurers to expand internationally was their organizational history and development. The major life insurers modeled their organizational structures on what they observed of the banking sector. The branch system of administration

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74 Unlike the British market and the Australian general insurance market, there was no tariff system in place governing market conduct. There is also no evidence to suggest that other price-fixing arrangements were in place.

75 Australasian Insurance and Banking Record (1960); Life Insurance Commission, Annual Report (Canberra, 1980).


77 A further six were subsidiaries of general insurers, and an additional six were bank owned. The remaining six were either subsidiaries of other life insurers or other financial service providers. Of the seven life insurers listed in 1990, four were mutuals and three, small providers.

78 Insurance and Superannuation Commission (Canberra, 1990).
was a logical outcome of the early expansion path of these firms. As the life-insurance institution grew, it opened branches in the main population centers of neighboring colonies. Each branch eventually had a number of offices attached to it as further growth took place. The approach taken to the administration of this system was generally highly centralized. Branches, both local and overseas, had a small degree of autonomy but were essentially directed by the head office. The role of the branches was to expand scale and implement the plans determined by centralized decision-making processes. There was generally tight operational control of resources and information leading to the development of bureaucratic processes formalizing the flow of information down the line. The use of internal labor markets to assist in the management and protect the integrity of large volumes of data led to the creation of office systems that further reinforced the centralized control system.

Reforms to organizational structures occurred in response to changing competitive pressures. In the 1950s life insurers moved from a branch-based to a divisional-based structure in an effort to cut costs and retain their market advantage in the face of increased competition from new entrants. A divisional structure with its greater emphasis on specialization allowed the development of new routines that encouraged more sophisticated strategic planning processes. From this, the subsidiary structure emerged, which allowed life insurers to diversify into different markets. A weakness of this approach, however, was that it did not give the organization and its managers direct experience in the management of business within these markets. Instead they remained as interested onlookers.

The divisional structure based along functional lines served these organizations well in the 1960s and early 1970s, allowing them to introduce new technologies and processes in the back office and market new financial products to suit changing consumer demand. By the 1980s, however, the major mutuals were finding themselves increasingly hamstrung by their organizational bureaucracies. A key problem was that previous organizational structures had been superimposed on one another so that by the 1980s a complex array of structural forms coexisted side by side. For example, although the divisional structure had replaced the branch structure, geographic divisions (branches) still existed alongside product divisions. Functional groupings added another layer to the structure. A report to the AMP in 1987 found that much of the structure and practices of this organization had outlived their value and original purpose but had remained in place. The result had led to conflicting lines of authority and costly management systems.

Another round of organizational restructures occurred in response to increasing market competition. Firms such as the AMP and National Mutual called in outside consultants to conduct a number of organizational reviews. In the case of the National Mutual this resulted in the reorganization of its internal structure into three separate divisions that distinguished between its insurance operations, its investment operations, and its overseas operations. The AMP undertook a similar process of modernization with the dismantling of its remaining branch structure and a greater centralization of decision-making processes. The changes to the organizational structure of the AMP were associated with a change in culture as it sought to modernize its Board of Directors and executive. The number of directors was cut from seventeen to twelve and a much greater emphasis placed on appointment with diversified international experience. These reforms provided the platform on which life insurers could launch their international campaigns, but they remained constrained by their mutual structures and their inward looking heritage. Although promotion and recruitment procedures had been loosened up, it remained difficult to appoint senior executives with appropriate experience of international markets. Managers, many of whom had attained their position through the promotion processes of the internal labor market, often lacked an in-depth experience of international operations.

Mutual structures were a further constraint in prescribing the types of activities a life insurer could pursue. They placed limitations on the ability of some firms to expand overseas. They also placed limitations on the ability to develop as financial conglomerates. The final stage in the development of organizational structures occurred with the demutualization of these institutions. The Colonial and National Mutual demutualized in 1996 and the AMP in 1998. While the reasons for taking the decision varied, the pace of outwards FDI increased markedly after this time.

The preceding discussion indicates that internationalization strategies were evolving as Australian insurers ventured further into global markets. Prior to the 1980s management viewed its overseas operations as adjuncts to the domestic business. The emphasis was on centralized decision-making processes where overseas interests, as with local branches, existed to assist in the delivery of products. Overseas operations were branches of the domestic concern and as such were subject to the same management practice as local branches. This type of strategy proved successful in the small and relatively undeveloped market of New Zealand that had a similar heritage and population profile. It was

81 AMP, Annual Report (Sydney, 1995).
less successful in the more diverse markets such as that in the United Kingdom, where greater levels of competition made it difficult to establish a significant market presence. The approach adopted by Australian insurers in this period did not facilitate the expansion of a global network and overseas interests remained small until new strategies were adopted. The third phase of internationalization, beginning in the mid-1980s, witnessed various attempts at developing more sustainable approaches to overseas expansion. The different strategies applied represented a learning curve as the large life insurers sought to break away from the constraints imposed by their past heritage with varying degrees of success. The acquisition model of expansion, for example, did not prove very successful for the AMP, which later had to divest or restructure its overseas assets. Lack of experience in these markets was a contributing factor to the problems experienced and was a legacy of the internal culture of the firm. The joint-venture formula adopted by the Colonial was more fruitful. This strategy combined with the Allfinanz approach and its associated diversification into other markets allowed the organization to offer a more extensive range of products overseas and tailor them to specific markets more readily. Such a model allowed the company to rapidly build a presence in the comparatively new markets of the Asia/Pacific. The National Mutual approach of using both subsidiaries and branches to develop its overseas interests met with moderate success. A key problem was the establishment of a local identity and customer base. Recent moves by the parent company AXA to divest itself of its Australian business indicate that the outcomes were not as successful as expected.

Conclusion

In exploring the path of internationalization followed by Australian life insurers, it is evident that local conditions and past heritage had a significant bearing on the ability of these firms to pursue global strategies. The structure of the domestic market dominated by a small number of large mutual providers meant that a limited number of firms had the capacity to go offshore. Those that did were constrained not only by their governance systems but also by their strategic capabilities, a function of their organizational structure. The branch system of administration that the major insurers adopted was not particularly suited to large-scale overseas expansion. The centralization of major decision-making processes and associated management procedures fostered an inward-looking approach. Overseas operations were largely seen as appendages to the domestic operation. As such, there was little scope to develop specific strategies suited to the particular characteristics of the
overseas center. This heritage did not equip life insurers well for global expansion. To expand beyond their limited international exposure, these firms needed to restructure and develop new capabilities. This was a process they had little interest in until domestic competition began to challenge their market share in the 1980s. Belatedly realizing that the home market was not large enough to support all contenders, they turned their attention to the international arena. In this respect, the movement offshore was driven primarily by domestic considerations. The restructuring of operational capabilities that occurred as life insurers began to transform themselves into financial-service providers enabled the development of new approaches to international markets. The differing strategies adopted met with a varying degree of success in the 1990s as the search continued for the right international model.

The heritage of the firm and the market in which it operates offer a deeper understanding of the forces encouraging and discouraging the development of cross-border trade. In the Australian case there was no real incentive for offshore expansion while local markets offered sufficient scope for growth and development. It wasn’t until demand and supply conditions changed in the 1980s and competition from other financial service providers began to impact on market share that firms began to take a more global outlook. The structure of the domestic market, the firm’s place within this structure, and the evolution of its internal organizational processes all influenced the ability to undertake overseas expansion. Their organizational history often impeded those firms with the size and resources capable of venturing offshore. The inherent conservatism of mutual structures together with their multilayered organizational bureaucracies fostered a culture that was slow to change. It was not until these structures were reformed that managerial capabilities began to expand and take an international focus. This article posed the question, Does organizational heritage matter in company internationalization? The story of Australian life insurers shows not to discount this factor.

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