

Box B: Telstra Float and AMP Demutualisation

The partial privatisation of Telstra in November 1997 and demutualisation of the AMP Society are the largest financial-sector events of their kind to have occurred in Australia (Table B1). Both are likely to have significant effects on the real economy. The Telstra privatisation probably had a small positive effect on consumer demand in the December 1997 and March 1998 quarters, while the AMP demutualisation may have a somewhat larger effect during 1998 and 1999.

One-third privatisation of Telstra

The sale of one-third of Telstra will yield around \$14.3 billion to the Commonwealth. Households were allocated 60 per cent of Telstra shares on offer. The remaining shares were purchased, in about equal proportions, by domestic and foreign institutional investors. The persistent strength in the price of Telstra instalment-receipts¹ (IRs) since their listing on 17 November reflects strong demand from institutions seeking to hold share portfolios that mirror the composition of the All Ordinaries index, which now

includes one-third of Telstra. It also reflects an international re-rating of telecommunications stocks associated with a flight to quality following the Asian financial crisis. The possibility that the utility will be fully privatised after the next federal election may also have underpinned demand for IRs.

Households may have *reduced* consumption initially to help fund the purchase of Telstra IRs, although many of the purchases were financed by borrowings. Households who purchased IRs, however, have experienced a substantial capital gain as IRs have traded at a premium of 100 per cent to the issue price. This is likely to have led to a more recent *boost* to consumption both from retail investors who have sold their IRs in recent months, and from investors spending some of the added wealth implicit in the higher price of their IRs. Part of the approximately \$900 million oversubscription money returned to retail investors in early December may also have been spent, especially given the proximity of these receipts to Christmas.

Table B1: Privatisations and Demutualisations since 1990

Privatisations over \$2.5 billion		
Asset	Proceeds (\$ billion)	Year(s) of privatisation
Telstra	14.3	97/98 – 98/99
Commonwealth Bank of Australia	8.2	91/92 – 97/98
Loy Yang A	4.7	96/97
PowerNet	2.6	97/98
Demutualisations		
Institution	Value (\$ billion) ^(a)	Year of demutualisation
AMP Society	13 ^{1/2} – 17 ^{1/2} (est.)	97/98
National Mutual	3.1	95/96
Colonial Mutual	2.0	96/97
(a) Market capitalisation one month after listing.		

1. Telstra shares are held in trust until payment of the second instalment (around \$6 billion) in November 1998.

AMP demutualisation

The demutualisation of the AMP Society earlier this year gives current policyholders a readily transferable share of the wealth that has accumulated in the AMP since its inception. Current estimates suggest that when the renamed AMP Ltd lists on the stock exchange on 15 June, its market capitalisation will be in the range \$13½ – \$17½ billion. Most policyholders are likely to have ignored, or heavily discounted, this component of their wealth before the demutualisation was mooted. In this sense, the demutualisation may be seen as a ‘windfall gain’ by current policyholders.

Australians are estimated to be entitled to around 75 per cent of the AMP Ltd shares, with most of the remainder going to citizens of New Zealand and the UK. Of the Australian shares, about 10 per cent will be allocated to superannuation trustees. Based on these estimates, individual Australian policyholders will be allocated about two-thirds of the AMP shares on offer. These individual policyholders are likely to increase their spending on consumption and dwelling investment, based on the experience in the United Kingdom following the conversion of building societies and the demutualisation of insurance companies in 1997.

The increase in spending is likely to come from two types of policyholders. The first type are those who sell AMP shares and spend some of the proceeds. (Some of these policyholders might be unable to increase current spending without selling AMP shares, because they lack a buffer of savings.) The UK experience suggests that the additional expenditure from policyholders who sell shares could amount to about

\$1.3 billion in the two years following the demutualisation, using the midpoint of current estimates of market capitalisation, with most of this expenditure occurring this year. The second type of policyholders are those who keep their AMP shares (at least for several months after the listing), but who nevertheless have sufficient savings to increase current expenditure. These policyholders might be expected to raise their expenditure in response to the ‘windfall gain’ implicit in the AMP demutualisation. Some of this extra expenditure (about \$0.3 billion, based on the UK experience) may occur *in anticipation* of the receipt of AMP shares. A continued flow of additional expenditure should also be expected by these policyholders after the shares have been received, which might add an estimated \$0.6 billion per annum to expenditure.

The survey evidence from the UK, on which these estimates are based, needs to be applied with caution to the Australian experience, because the payouts in the UK were derived from a range of financial market events, albeit dominated by demutualisations, and occurred in a period of robust consumer confidence and consumption growth. In addition, the age profile of members of building societies and policyholders of insurance companies in the UK may have been different from that of the individual policyholders of AMP Ltd; spending patterns in response to windfall gains may well differ by age group. Despite these caveats, the AMP demutualisation may be expected to boost aggregate demand in Australia in 1998 and into 1999 by the order of a few tenths of one per cent of annual GDP, with most of this effect in the current year. ✧