Financial Management of Catastrophes in Australia
Terrorism Insurance

• Classic case of market failure
  – A failure of the market place to deliver a good or service resulting in sub-optimal economic and/or social outcomes
Principle of Government Support

- Maintain private sector involvement
- Risk transferred to the Australian Government is appropriately priced
- Ensure an appropriate exit Strategy for Government
- Compatible with global solutions
Working with the Insurance Industry

- Operates off the back of existing insurance policies
  - terms of underlying policies set the terms also of the terrorism risk cover
The Scheme is built around Key Concepts

- eligible property
- eligible insurance contract
- declared terrorist incident
- terrorism exclusion
- reduction percentage
- owner or occupier
Coverage

• Risks of physical damage to commercial property
• Costs of business interruption arising from such damage
• Public liability risks also arising from such damage
# ARPC Reinsurance Charges

- Reinsurance premiums set as a % of base premium

<table>
<thead>
<tr>
<th></th>
<th>Pre event</th>
<th>Post event</th>
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<tbody>
<tr>
<td>Comm. Prop +BI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier A (CBD)</td>
<td>12%</td>
<td>36%</td>
</tr>
<tr>
<td>Tier B (Urban)</td>
<td>4%</td>
<td>12%</td>
</tr>
<tr>
<td>Tier C (Other)</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>Public Liability</td>
<td></td>
<td>2%</td>
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</tbody>
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*Australian Reinsurance Pool Corporation*
Financial Capacity

• The Scheme targeted to achieve a financial capacity of $10.3 billion
  
  – A $300 million cash pool, funded by reinsurance premiums over about 3 years
  
  – A $1 billion bank line of credit, Government guaranteed
  
  – A $9 billion Government indemnity
Cedant Reviews

- Legacy systems could cause problems in identifying policies covered in the event of a DTI
- Smaller cedants tend not to document procedures
- A few cedants were not aware of the ARPC formatted spreadsheet for the quarterly return
- Policy count should only reflect locations with Buildings
All clients have adequate claims procedures in place to deal.

Many did not include specific procedures for handling a DTI in their Claims Procedures Manuals.
Terrorism Insurance Act Review 2006

- the scheme continues operating for at least another 3 years;
- the ARPC be required to continue charging premiums for reinsurance at the current rates, subject to further review in (no more than) three years;
- once the pool reaches $300 million, the ARPC have discretion to determine whether to use premiums to build the pool further, purchase reinsurance for the scheme or undertake a combination of the two;
– insurer retentions under the scheme be increased in three increments, as follows:

  • on 1 July 2007, introduce a minimum annual insurer retention of $100,000 and raise the maximum per event industry retention to $25 million;
  • on 1 July 2008, raise the annual insurer retention so that it is the lesser of $5 million or 4 per cent of Fire and ISR premiums collected by the insurer and raise the maximum per event industry retention to $50 million;
  • on 1 July 2009, raise the annual insurer retention so that it is the lesser of $10 million or 4 per cent of Fire and ISR premiums collected by the insurer and raise the maximum per event industry retention to $100 million;
• in relation to bundled insurance policies, the ARPC be required to only charge reinsurance premiums on those sections of the policy that exclude terrorism risks; and

• commercial insurance provided in relation to all public authorities has access to the scheme (including in relation to local government utilities).
An Early Exit

- While lot of effort and thought has gone into developing and implementing the scheme, the Government’s firm objective is to exit the business asap

- Scheme necessity will be reviewed again in 2009
Catastrophe Management in Australia

Australian Catastrophes since 1967

- Cyclone 30
- Bushfire 18
- Earthquake 4
- Flood 42
- Hail 31
- Storm 87
- Wind/Tornado 15
- Tsunami 1
Overview of Natural Disaster Relief Arrangement (NDRA)

- Disaster Relief Payment
- Crisis Payment
- Special Benefit
Emergency Management Australia (EMA)

- Commonwealth Counter-Disaster Task Force
- The Emergency Management Committee
- State/Territory Disaster Management Organisation
- Emergency Management Organisation
Eligible Natural Disaster Events

- Any one of or combination of cyclone, flood, storm, bushfire, earthquakes or a landslide.
- Drought is not an eligible NDRA event
- Non-natural disasters are not eligible for NDRA funding
• The Commonwealth meets half of all States & Territory outlays where disaster expenditure exceeds the small disaster threshold of $240,000.

• Other eligible relief measures is on a dollar-for-dollar basis for State or Territory.

• Over the second threshold reimbursement is 75 cents for every dollar
In many respects disaster relief payments are an alternative to insurance and in this regard it is important to ensure that the availability of such relief does not become a disincentive for individuals to purchase insurance.
Commonwealth natural disaster management arrangements

DEPARTMENT OF THE PRIME MINISTER AND CABINET
Policy advice and coordination
Commonwealth Counter-Disaster Task Force

ATTORNEY-GENERAL
Commonwealth Emergency Management

MINISTER FOR T AND RS
Mentor, Relief and Recovery Policy Plan

OTHER MINISTERS (e.g.), DEFENCE, FaCS, CENTRELINK, HEALTH, AFFA
Various disaster support services

EMA
Coordinate Commonwealth EM Policy development (all hazards)
Develop national EM capability
Coordinate Commonwealth and International disaster response and Commonwealth response plans
EM education and training and EM research coordination
Information and knowledge management and implement community awareness programs

DOTARS
Natural disaster policy development and programs in relation to:
Risk assessment program
Flood mitigation (RFMP)
Relief and recovery (NDRA)
Economic and mitigation research

SCIENCE AND RESEARCH
Geoscience Aust, BOM, EMA, BTRE, CSIRO, ABS, AGO

VARIOUS DEPARTMENTS
FaCS income support policy
Defence disaster assistance and national EM capacity
H and A disaster medicine capability and assistance
Centrelink disaster/income relief service delivery
BOM flood warning systems and service weather warnings
Geoscience Aust geo-hazard monitoring and warnings
AFFA farm relief and animal emergency management
Other Commonwealth agencies – disaster assistance

ARPC
Issues

• Government should focus on mitigation strategies
• Insurance industry should assist with expertise and funding
• They are the beneficiaries of risk reduction strategies
THANK YOU