

Financial Management of Catastrophes in Australia

ARPC

Australian
Reinsurance
Pool Corporation

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

	Pre event	Post event
Comm. Prop +BI		
Tier A (CBD)	12%	36%
Tier B (Urban)	4%	12%
Tier C (Other)	2%	6%
Public Liability		2%

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;

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- 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

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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

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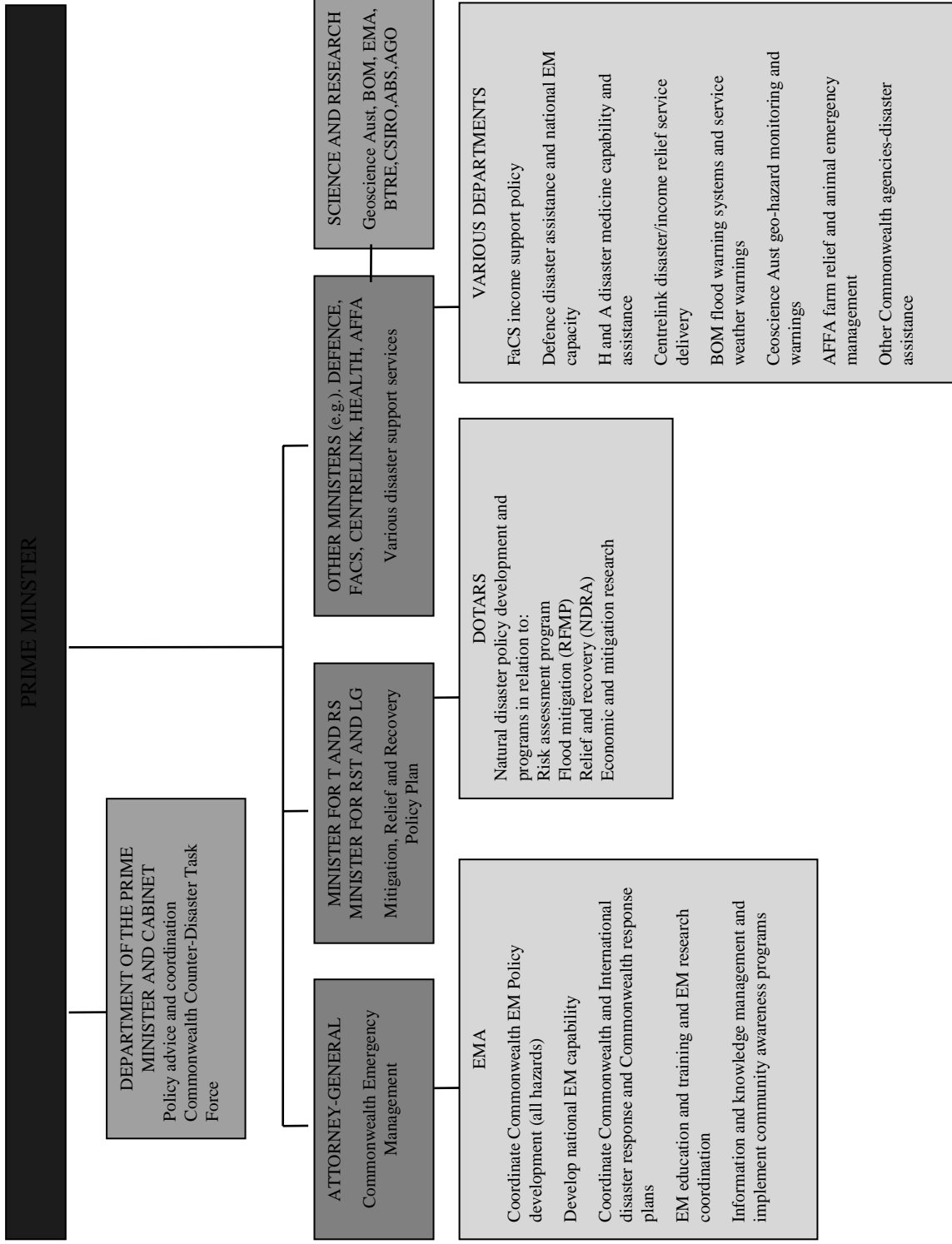
Eligible Natural Disaster Events

- 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



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

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