

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio
Additional Estimates 14 – 15 February 2007

Question: **act 9 (APRA)**

Topic: **Reward Insurance**

Hansard Page: **Written**

Senator WEBBER asked:

1. Can APRA advise of the reasons and background as to why APRA served Reward Insurance a Notice to Show Cause in early July 2001?
2. *"Reward Insurance commenced underwriting License Builder Warranty Insurance from 01/05/1996 and continued to 30/06/1999. From 01/07/1999 any business obtained by Australian Home Warranty was placed with HIH.*

"Reward Insurance again commenced to underwrite Licensed Builder Home Warranty Insurance in May 2001 to mid June 2001 at which time it ceased at the request of APRA. Over this period approximately 700 policies were written with no reinsurance program in place". - Actuary report by William Szuch dated 30/06/2001.

Can APRA confirm the above chain of events and its response to Reward Insurance Ltd's writing insurance policies without an APRA approved reinsurance program?
3. Can APRA confirm that Reward Insurance did in fact put in place an APRA approved reinsurance program to cover the 700 policies? If so, when?
4. Can APRA confirm that Reward's reinsurance arrangements by providing a copy of the 401 and 402 forms for the period from January to December 2001?

Answer:

1. In July 2001, APRA discovered that an asset held by Reward Insurance ('Reward') may have been pledged as security to a bank, and would therefore be excluded from assets by section 30 of the *Insurance Act 1973*. If the asset were excluded by section 30, Reward may not have met the minimum solvency requirement under the Act. APRA therefore issued a letter to Reward, asking it to show cause why APRA should not commence an investigation. Reward responded to APRA's concerns in such a way that no investigation was commenced at that time. Reward Insurance was exited from the insurance industry by APRA in March 2004, following a trade sale of its insurance business. There was no loss to policyholders.
2. APRA cannot confirm or deny the events for confidentiality reasons set out in its governing legislation.
3. APRA cannot confirm or deny the events for confidentiality reasons set out in its governing legislation. In general terms, APRA notes that the absence of reinsurance arrangements does not invalidate a policy of insurance. Reinsurance acts to reduce the overall risk of the insurer, and a policyholder has no direct recourse to a reinsurer. APRA also notes that all of Reward's in force insurance policies were transferred to

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Australian International Insurance Ltd in March 2004, and there was no loss to policyholders.

4. APRA cannot confirm or deny these events for confidentiality reasons set out in its governing legislation.