Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates, 16 February 2006

Question: AT 46

Topic: *Reward insurance*

Hansard Page: Written

Senator WEBBER asked:

1. Can you please explain what an 'introduction fee' is and the normal approval procedures for such a fee?

2. What are the normal operating costs for an insurance company, including the salary packages for staff and executives? Did Reward Insurance operate at a comparable level of expenditure to other like companies, and if not, why?

3. What are the normal procedures for release of information (primarily financial) within a group such as the Reward companies?

4. When organising a sponsorship contract, such as that entered into by Geelong Football Club and Reward Insurance, what are the usual procedures for gaining approval of said contract? Can you explain why the Reward Insurance Board believed that the liability for the GFC contract would be borne by Reward Advantage?

5. On 13 September 2002 the Reward Insurance Board discussed the debt owed to it by Reward Advantage (re: PN24). The Board believed that the amount owed was in the amount of $800,000.00 and a further $153,000.00 in receivables. A further Financial Report for Reward Insurance for the financial year ending 30 June 2002 places the figure owed at $1.7 million as of 30 June 2002, rising to $2.7 million as of 30 October 2002 (PN25). Could you please explain the discrepancies between these figures?

6. On 31 December 2002 a Profit and Loss Statement for the financial year ending 30 June 2002 showed that Reward Insurance had made a profit of $550, 882.00 – later figures revealed that in fact the company had made a loss of $1,668,268.00 for that year. Similarly, figures presented to the Board for the financial year ending 30 June 2003 disclosed a profit of approximately $800,000.00 for that year, when in fact Reward Insurance had made a loss of $2,681,959.00. Could you please explain the discrepancies between these statements and the actual figures?

7. The above reports fail to disclose the liability that Reward Insurance held for the $250,000.00 per annum owed to the Geelong Football Club; and $954,000.00 in marketing and advertising costs. They also overestimate the level of third party recoveries to be recovered by Reward Insurance. Who was responsible for the inaccuracy of these reports, and what effect did they have on the company's ability to operate?

8. What is the average rate of commission charged by insurance agents? How does this compare to the rate that Reward Insurance was charged by Australian Home Warranty?

9. What were the terms of the agency agreement negotiated on 3 January 2002 between Reward Insurance and Australian Home Warranty and was this an exclusive agency agreement?

10. What are the usual procedures by which the Board would approve such a contract and were these procedures followed in this case?

11. What is the relationship between Australian Home Warranty and OAMPS? Did Australian Home Warranty in any way gain from the sale of Reward Insurance to OAMPS?

12. Do you believe that an undisclosed conflict of interest existed via the relationship between the Reward Insurance shareholders and the shareholders of Australian Home Warranty? If so, did this conflict have a detrimental effect on the ability of Reward Insurance to conduct business?

(1) An introduction fee is generally a fee paid in return for the introduction of one client to another. There is no statutory requirement for APRA to approve such fees paid by or received by authorised general insurers.

(2) Prior to the revocation of its licence in 2004, Reward was primarily a niche insurer of builders' warranty insurance. At that time there was only one other company active in that class of business, a company significantly larger than Reward which had numerous other lines of business. Since there were significant scale and business differences between Reward and its only competitor, no meaningful comparison can be made between those two companies, or other insurance companies more generally.

(3) Procedures for release of information between entities within a group are a matter for agreement between the directors and management of each entity, subject to the provisions of their respective constitutions and the Corporations Law.

(4) The approval of contracts is the responsibility of the board and management of any company; APRA has no statutory role in giving such approval. APRA has no record of the Reward board's detailed deliberations in relation to the contract.

(5) APRA does not have any record that would enable it to confirm whether there was a meeting of the Board of Reward Insurance on 13 September 2002, and hence has no information regarding issues discussed at any such meeting.

(6) APRA can confirm the loss figure of $1,668,268 for the financial year ending 30 June 2002 from the Reward Insurance audited financial statements. APRA has no record of being provided with a report giving a profit figure of $550,882 for that financial year.

APRA has unaudited management accounts from Reward Insurance up to 30 June 2003 which show a profit of approximately $900,000. The audited financial statements for the 30 June 2003 financial year show a loss of $2,681,959. The reason for the difference was that Reward Insurance's approved actuary recommended a further provision for insurance liabilities of approximately $3 million. This recommendation was accepted by the Reward Insurance board.

(7) The board and management of Reward Insurance were responsible for the financial reports it presented. Both the 30 June 2002 and 30 June 2003 financial statements were subject to sign-off by both the approved actuary and the auditor.

Following the adjustment of Reward Insurance's accounts for the year ending 30 June 2003, it did not meet the Minimum Capital Requirement of the Prudential Standards, and APRA commenced action to have Reward exit the insurance industry.

(8) APRA does not have regulatory responsibility for insurance agents and is unable to provide comment on average commission rates.

(9) APRA does not have regulatory responsibility for insurance agents and does not have any statutory role in relation to insurance company dealings with insurance agents.

(10) Approval of agency agreements is a matter for the board and management of the company concerned; APRA does not have any statutory role in such contracts.

(11) APRA's understanding is that the business name 'Australian Home Warranty' is registered by Australian Underwriting Services Pty Ltd, which is an underwriting agency owned by OAMPS Ltd.

Australian Home Warranty Pty Ltd was an underwriting agency associated with Reward Insurance. Australian Home Warranty Pty Ltd may have gained from the sale of Reward Insurance to OAMPS to the extent that the purchase by OAMPS of the AHW business name was a consequence of its purchase of Reward.

(12) The minutes of the board meetings obtained by APRA during the course of its supervision of Reward Insurance, record directors' disclosures of conflicts of interest between three relevant directors and Reward Advantage, and one relevant director and Australian Home Warranty. APRA formed a view that Reward Insurance would be unable to continue to conduct business because it lacked sufficient capital to meet legislative requirements. The disclosed conflicts of interest played no part in APRA forming this view.