

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates 1 - 2 November 2006

Question: sbt26 (APRA)
Topic: Reward Insurance Ltd
Hansard Page: Written

Senator WEBBER asked:

- a. Reward Insurance Ltd lost their Home Warranty Re-insurer, or their ability to place Home Warranty insurance in March 2001 due to the HIH Insurance Collapse. Did Reward Insurance properly inform APRA as required by section 29 (e) of The Act that they no longer had a Reinsurer?
- b. Given that Reward Insurance Ltd had no reinsurance program post HIH collapse, did APRA allow or give an exemption to Reward Insurance Ltd to continue to write licensed builder warranty insurance, as stipulated in Section 34 (1C) of The Act.
- c. The show cause notice served by APRA in early July 2001, indicates that Reward Insurance Ltd were under capitalised. To counter this, Reward Insurance Ltd issues approximately \$1.5m of shares 'not for cash' to bolster its nett position. Did this share issue comply with all aspects of The Act with respect to Section 30 - Assets and Section - 31 Liabilities?
- d. It is apparent that in Mid 2001 to December 2001, Reward Insurance Ltd were significantly undercapitalized and had no APRA approved Reinsurance program in place, in July 2001, the company had been issued with a 'Notice to Show Cause' and the company were being investigated by APRA. Despite this, Reward Insurance Ltd continued to write Licensed Builder Warranty Insurance. Why did APRA allow Reward Insurance Ltd to continue writing Licensed Builder Warranty Insurance during the period?
- e. Would APRA normally allow a company such as Reward Insurance Ltd to continue to trade given its obvious above problems?
- f. Given the potential fraudulent conduct by the Directors of Reward Insurance Ltd during this period, no Reinsurance in place and a lack of capital, why have APRA not formally investigated the company or continue to state that the Reward Insurance Ltd had no formal restrictions on their business operations and they were operating within The Act? (APRA Letters to Giles Harden Jones dated 19/09/2006, 19 Oct 2006 & 30 Oct 2006)

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Answer:

- (a) HIH was not a reinsurer for Reward Insurance Ltd.
- (b) The information available on APRA's publicly available systems shows that there were no conditions, restrictive or otherwise, on Reward Insurance Ltd's authority to carry on insurance business.
- (c) (d) (e) APRA was not conducting a formal investigation of Reward Insurance Limited in July 2001.

APRA is precluded by the secrecy provisions in Section 56 of the *Australian Prudential Regulation Authority Act 1998* from disclosing information about the affairs of financial institutions it regulates.

In general, a show cause letter is issued as a part of a procedural fairness process before APRA exercises the statutory powers available to it. A show cause letter presents APRA's preliminary views and proposed action and invites submissions in response. It is not unusual for APRA to resolve the subject matter of the show cause letter with the regulated institution after the letter's issue.

- (f) Reward Insurance Ltd's licence to operate as an insurer was revoked in March 2004 following an investigation by APRA and a trade sale to Australian International Insurance Ltd. No policyholder suffered a default on any Reward policy as a result of APRA's actions.

The responses APRA provided to Mr Giles Harden Jones were factually correct.