



AUSTRALIAN INDUSTRY
GROUP

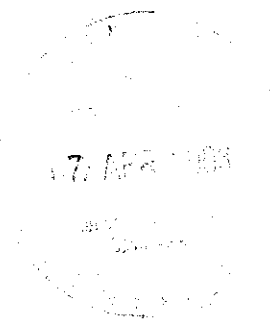
14 April 2003

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The Committee Secretary
Senate Economics Legislation Committee
Room SG.64
Parliament House
CANBERRA ACT 2600



Dear Sir/Madam

TERRORISM INSURANCE BILL 2002

We refer to your recent request for comment on the Committee's review of the above Bill.

The Australian Industry Group remains concerned with the current problems in relation to terrorism insurance and has taken a number of initiatives on this important problem over the past 18 months.

These actions have included:-

1. Discussions in late 2001 with Marsh Pty Ltd and the Insurance Council of Australia to identify both the extent of insurance gaps in Australia and relevant overseas practices including pooled arrangements in the UK, South Africa, Spain, France and Israel.
2. Correspondence with the Federal and State Governments on the urgent need for the continuing availability of adequate insurance cover on a cost effective basis. Refer enclosed letters dated 13 December, 2001 to the Prime Minister (Annexure 1), 18 March 2002 to the Federal Treasurer (Annexure 2) and 20 March, 2002 to State Premiers (Annexure 3). During that period Ai Group supported a co-ordinated action program by governments to provide an early and cost effective solution.
3. Release of an Ai Group survey in March, 2002 (Annexure 4) confirming that small business in particular is being adversely affected by both the difficulty in obtaining insurance against acts of terrorism and escalating costs particularly for public liability insurance premiums. A copy of the survey was also forwarded to Mr P Hallahan of the Senate Economics References Committee on 6 May, 2002 (Annexure 5).

4. The organisation and presentation of special briefing sessions for member companies in Sydney, Melbourne and Brisbane on the general terrorism threat and related risk management strategies for industry.

Late last year we noted the announcement by The Federal Treasurer on 25 October, 2002 of "a scheme for replacement terrorism insurance" including a pool supported by government funding. We understand the scheme will cover commercial property and infrastructure facilities and includes associated business interruption and public liability. Further that insurers would be required to provide cover for terrorism risk on all policies in classes of insurance covered by the scheme.

The Australian Industry Group supports the broad objective and direction of the proposal subject to later clarifying the more detailed issues of policy wordings, premiums and other conditions that may apply.

Obviously we would encourage the Senate Economics Legislation Committee to assist with the early and effective resolution of this legislation.

Should you require any additional information we recommend you contact Grahame Willis, Executive Director - Finance, Administration & Superannuation on (02) 9466 5566.

Yours faithfully,


R N HERBERT
CHIEF EXECUTIVE

cc: HM Ridout
GR Willis
MA Goodsell
TC Piper
LW Purnell
CD Whiting



AUSTRALIAN INDUSTRY
GROUP

13 December 2001

The Hon J W Howard, MP
Prime Minister of Australia
Parliament House
CANBERRA ACT 2600

ANNEXURE I

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Dear Prime Minister,

TERRORISM INSURANCE

We have recently been advised that, arising from the tragic events in the United States of America on 11 September 2001, international re-insurers will decline, from 1 January 2002, renewals of re-insurance for conventional policies covering acts of terrorism.

Our enquiries also indicate that the Australian Government is presently considering with the Insurance Council of Australia and others, possible alternative pooled arrangements which might provide adequate financial protection in these circumstances.

As you would be aware prudent businesses have for many years provided in their risk management programs insurance covers against terrorist acts which have included property insurance, consequential business loss insurance and other classes of indemnity. Such protection clearly is similarly necessary for the sound management, even the possible viability, of Australian industry in the future.

Having reviewed this issue with sections of our membership, it is readily apparent that industry is becoming increasingly concerned at the possibility, at least in the short term, of being unable to secure suitable covers or facing prohibitive premiums.

In these circumstances we would hope that the Government can give urgent priority to this matter and ensure the continuing availability of adequate and cost effective facilities to protect against such contingencies. If appropriate, the Australian Industry Group is available to confer with the Government on the related planning and implementation requirements.

We look forward to your early advice on the resolution of this problem and the anticipated timetable.

A copy of this correspondence has also been sent to The Hon Peter Costello MP, Treasurer, and The Hon Ian Macfarlane MP, Minister for Industry, Tourism and Resources.

Yours sincerely,

(R N HERBERT)
CHIEF EXECUTIVE

cc: The Hon P Costello MP
The Hon I Macfarlane MP

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AUSTRALIAN INDUSTRY GROUP

18 March 2002

The Hon P Costello MP
Treasurer
Parliament House
CANBERRA ACT 2600

COPY

ANNEXURE 2

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Dear Treasurer

PUBLIC LIABILITY INSURANCE PREMIUMS

On 13 December 2001 we wrote to the Government expressing concerns about the lack of renewal facilities in Australia of insurance against acts of terrorism. Subsequently we have discussed this matter with representatives of Treasury and understand that it is still under consideration. Whilst we recognise the complexities involved, we would hope that a cost effective solution will be identified at an early date.

More recently the Ai Group has undertaken a representative survey among our members on additional concerns with regard to substantial increases being incurred in the cost of public liability insurance. This survey indicated that:-

- on average premiums were expected to rise by 41% in 2002,
- 92% of respondents reported actual or anticipated increases and 28% also advised of an increase in the policy excess,
- annual premiums on average were expected to increase from \$13,021 per company to \$18,369,
- small companies (i.e. those employing 25 or less) were worst affected with projected increases of 65%, and
- the increases are being felt despite some 95% of companies indicating they had not experienced higher claims over the past year.

The survey also confirmed the exclusions now being applied in policies for acts of terrorism.

The impact of these substantial cost increases on the profitability and competitiveness of Australian industry is therefore also of concern. Accordingly we would commend the Federal Government's proposal to meet with the State Governments later this month to review the problem and hopefully develop a co-ordinated action program to minimise the damage that may be caused to business and the wider community.

A copy of this correspondence is also being forwarded to the Prime Minister, The Hon J W Howard; the Minister for Industry, Tourism and Resources, The Hon I Macfarlane; the Minister for Revenue and Assistant Treasurer, Senator H Coonan and the State Premiers.

Yours sincerely,

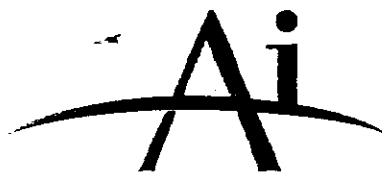
R N Herbert
CHIEF EXECUTIVE

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20 March 2002

The Hon R J Carr MP
Premier of NSW
Level 39 Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

ANNEXURE 3

Dear Premier

PUBLIC LIABILITY INSURANCE PREMIUMS

Enclosed is a copy of a letter forwarded to the Federal Government raising concerns with the widespread problems regarding the cost and availability of public liability insurance. The correspondence includes a summary of results of a recent survey of Ai Group members on this issue which confirms the substantial premium increases generally being experienced by industry.

We understand your Government is to participate in a conference later this month with the Commonwealth and other States to review the problem. The Ai Group supports this initiative and commends the need for a co-ordinated action program to provide an early and cost effective solution.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Goodsell'.

Mark Goodsell
Director - NSW

Encl.

MEDIA RELEASE

22 March 2002

Embargo: 7.00am Monday 25 March

Small business hardest hit by insurance premiums after September 11

An Australian Industry Group survey has confirmed that small business has been the hardest hit by the post September 11 escalation in public liability insurance premiums.

Ai Group Deputy Chief Executive, Heather Ridout, said the findings reinforced the need for early action to address the cost impact on business.

Mrs Ridout commended the Federal Government on its initiative to meet with the States in Canberra on Wednesday 27 March to consider coordinated action to minimise the damage to business and the wider community.

The survey – undertaken over the past month - found that:

- Average industry premiums were expected to rise by 41%.
- Smaller companies with 25 or fewer employees faced increases averaging 65%.
- 92% of respondents reported actual or anticipated premium increases.
- 28% also reported increases in their policy excess.
- Insurers are insisting on policy exclusions for acts of terrorism.
- The increases were being imposed despite the fact that 95% of companies had not made higher claims over the past year.

Mrs Ridout said the findings have been forwarded to the Prime Minister, Premiers, Federal Treasurer and Industry, Tourism and Resources Minister.

She also emphasised the importance of an early solution to the problem of lack of renewal facilities for insurance against terrorism.

“The impact of these substantial cost increases on the profitability and competitiveness of Australian industry is a concern,” she said.

“Whilst we recognise the complexities involved, we would hope that cost effective solutions will be identified at an early date.”

Contacts: Heather Ridout
Deputy Chief Executive
Ai Group
02 9466 5566, 0419 257 361



AUSTRALIAN INDUSTRY
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6 May 2002

Mr P Hallahan
Secretary Senate Economics References Committee
Parliament House
CANBERRA ACT 2600

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ANNEXURE 5

Dear Mr Hallahan,

**INQUIRY INTO PUBLIC LIABILITY INSURANCE
AND PROFESSIONAL INDEMNITY INSURANCE**

Thank you for your letter of 10 April 2002 in relation to the above inquiry.

The Australian Industry Group is both conscious of and concerned with the important issues covered by this inquiry and has already taken a number of relevant initiatives.

These have included a snapshot survey of our member companies as well as representations to both Federal and State Governments on the public liability issues.

With reference to the survey undertaken earlier this year the data indicated that:-

- on average premiums were expected to rise by 41% in 2002,
- 92% of respondents reported actual or anticipated increases and 28% also advised of an increase in the policy excess,
- annual premiums on average were expected to increase from \$13,021 per company to \$18,369,
- small companies (i.e. those employing 25 or less) were worst affected with projected increases of 65%, and
- the increases are being felt despite some 95% of companies indicating they had not experienced higher claims over the past year.

The survey also confirmed the exclusions currently being applied in policy renewals for acts of terrorism which similarly is a cause for concern.

Representations undertaken to policy makers on these issues have included the following:-

- ▶ Letter to the Prime Minister of 13 December 2001 re "*Terrorism Insurance*" (Annexure 1)
- ▶ Letter to the Treasurer of 18 March 2002 re "*Public Liability Insurance Premiums*" (Annexure 2)
- ▶ Correspondence with State Premiers in March 2002.

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In recent weeks we have closely monitored developments arising from the meeting of 27 March 2002 chaired by Senator Helen Coonan, Minister for Revenue and Assistant Treasurer, involving all State and Territory Governments and the Australian Local Government Association. This meeting was convened to "tackle the problems of rising premiums and reduced availability of public liability insurance". Subsequently we welcomed the Joint Communique and broadly support the package of measures being examined to resolve the twin problems of rising claims and the availability of insurance cover.

We believe that this joint approach by government to these issues is absolutely essential if a sustainable and cost effective solution is to be found within a reasonably short period of time. Therefore, on the public liability issue, we would recommend to the Committee that it support the review now underway and encourage an early resolution of all matters.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R N Herbert', written in a cursive style.

(R N HERBERT)
CHIEF EXECUTIVE