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Alan Mason Executive Director

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

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Dear Dr Dermody

Terrorism Insurance Bill 2002

The Insurance Council of Australia (ICA) is the representative body of the general insurance industry in Australia. ICA members account for over 90 per cent of total premium income written by private sector general insurers.

ICA members, both insurance and reinsurance companies, are a significant part of the financial services system. Recently published statistics from the Australian Prudential Regulation Authority (APRA) show that the private sector insurance industry generates direct premium revenue of \$19.8 billion per annum and has assets of \$66.6 billion. The industry employs about 25,000 people.

ICA members issue some 37.8 million insurance policies annually and deal with 3.5 million claims each year.

Since the tragic events in the US on September 11, 2001, the provision of Terrorism insurance cover globally for commercial insurances all but disappeared.

As a result, a number of countries looked at ways in which their Governments could assist commercial property owners and financial institutions to manage the increased terrorism risk. The Insurance Council of Australia put forward suggestions on how that might be achieved in Australia.

Subsequently, the Federal Government in concert with its consultants, Trowbridge, developed a proposal which ultimately has resulted in the Terrorism Insurance Bill 2002. ICA has cooperated with the Government in the development of the Scheme to help ensure that it is a practical scheme administered through the existing private insurance system.

The Government proposal provides that Terrorism cover will be mandatory for the commercial sector and that a premium charge would be applied to property related insurance policies with the intention of building an initial fund of approximately \$300million.

The Terrorism premium charges will vary between CBD, urban and rural areas.

The Insurance Council of Australia, as stated earlier, has supported the Federal Government's initiative in a bid to assist commercial property owners and financial institutions. The main

issue of concern to insurers with the Bill is that adequate time is needed to make appropriate system changes to allow for the Terrorism premium charges.

The amendments to the Bill have postponed by three months the date for such collections so that the premium charges will only apply to policies commencing after 1 October 2003.

The postponement was a welcome move as insurers would not have been able to meet the earlier date originally proposed due to the lack of certainty on a range of details. However, the timing issue is not yet fully resolved.

Insurance companies normally distribute renewal notices for insurance policies approximately six to eight weeks in advance of the due date of the contract. . This therefore means that for renewal premium calculations to be adjusted in accordance with the new law, systems will need to be adjusted over a period of some months prior to the distribution of renewal notices.

Some of the key outstanding issues, which at this point prevent insurers from making necessary changes, will be included in Regulations rather than the Bill itself. Such issues include:

1. Definitions of CDB, urban and rural areas. ICA is awaiting advice as to which postcodes will apply to each of these three areas.
2. The effects of the minimum retention imposed on insurers under the reinsurance offered by the Pool.
3. Particular classes of insurance which are to be deemed "eligible insurance contracts".

These are some of the core issues that need to be resolved to provide certainty to insurance companies and others before the necessary systems changes can be made. This list is not exhaustive but simply illustrative of the matters remaining outstanding.

ICA is working closely with Federal Treasury in seeking answers to these types of questions.

Another important issue of concern to insurers is the need to have this scheme extended as soon as possible to apply to the privately underwritten statutory schemes across Australia.

These statutory schemes are Workers Compensation and Compulsory Third Party Bodily Injury, Motor Vehicle Schemes which currently impose obligations on insurers which can and should be picked up through the Terrorism Insurance Bill 2002.

ICA believes that these privately underwritten statutory schemes are capable of being quickly introduced to fall within the ambit of the Terrorism Insurance Bill 2002.

ICA supports the Terrorism Insurance Bill, 2002 subject to the working through of details. To provide certainty for many in the community ICA therefore believes the Bill should proceed as expeditiously as possible.

Yours sincerely



Alan Mason
Executive Director