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15 October 2009

Financial Claims Scheme Policy holder Compensation Facility Activated for Small General Insurer

The Minister for Financial Services, Chris Bowen MP, has today activated the Financial Claims Scheme (FCS) Policyholder Compensation Facility for a small general insurer, the Australian Family Assurance Limited.

The Australian Family Assurance Limited is a small insurer in run-off since 2002, having written no new business since that time, and currently has 18 policyholders with known outstanding claims.

"Today's decision to activate the FCS Policyholder Compensation Facility will ensure that vulnerable claimants will be able to have their claims managed and paid promptly, rather than waiting until the liquidation of Australian Family Assurance is completed," Mr Bowen said.

"The Government, through APRA, will fund payments under the FCS Policyholder Compensation Facility, with the costs to be recovered as far as possible through the liquidation of Australian Family Assurance."

The Minister's decision follows the advice of the prudential regulator, the Australian Prudential Regulation Authority (APRA) and the appointment of a judicial manager to Australian Family Assurance.

APRA has advised the Minister that it believes Australian Family Assurance is insolvent. On the basis of this advice, the Minister has decided to activate the FCS Policyholder Compensation Facility to assist the claimants of the insurer.

The recent events at Australian Family Assurance are not connected with recent developments in the global economy and they pre-date the new prudential supervision regime for general insurers that was introduced in 2002.

These events are very specific to the company. There are no implications for any other Australian-authorized general insurer.

APRA considers that the general insurance industry in Australia is sound.

As of 3 July 2009, when APRA had a judicial manager appointed to Australian Family Assurance, the insurer had an estimated \$2.5 million in liabilities while its tangible assets were reported to be \$603,000. Its outstanding claimants include minors, small businesses and non-profit organisations.

The Government enacted legislation to establish the Financial Claim Scheme (FCS) in 2008. The FCS can assist depositors and policyholders in the unlikely event that a prudentially regulated financial institution fails.

A person with a claim on Australian Family Assurance, or having any queries, may contact APRA at 1300 131 060.

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