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Insurance Information Sheet

Unauthorised Foreign Insurers

Several brokers and agencies operating in Australia are using Insurers who are not authorised in Australia. The NCROSS Insurance Line has received numerous enquiries about these insurers, termed Unauthorised Foreign Insurers or UFI's.

***Who are Unauthorised Foreign Insurers
and what do you need to know before
placing your insurance with one?***

Background

One of the results of the HIH collapse was a tightening of regulations for Australian authorised insurance companies. The Australian Prudential Regulatory Authority (APRA), the regulatory body for Insurers, released new Prudential Standards in July 2002 for all Australian authorised general insurance companies. The Standards were developed to "increase the safety, soundness and sustainability of the Australian financial system".

To obtain APRA authorisation, general insurers are assessed on their individual situation, business practices and business plans under the new prudential standards. Improvements to the standards include increased capital requirements (ie the insurer needs enough capital to pay claims from premiums they have underwritten), reinsurance management strategies, risk management strategies and processes and the obligation for Insurers to appoint an approved Actuary.

What are UFI's?

UFI's are Insurance companies incorporated in an overseas country, that have either not applied for or not passed APRA's authorisation process and therefore do not have to comply with the regulatory standards that Australian authorised insurers have to.

While UFI's are legally allowed to operate in Australia, they are not subject to the Australian Insurance Act 1973 which regulates the activities of general insurers. UFI's are instead subject to the laws and regulations of the country where they are either registered or licensed from, and they have to be approved to operate in Australia by their local regulators. Some of the biggest insurance companies in the world are UFI's but there are also some small companies from countries with very little regulation.

UFIs appeal to not for profit organisations as their premiums can be cheaper than APRA authorised insurers. In April 2002, APRA issued a consumer warning “urging consumers to exercise caution before entering into insurance policies with unauthorised insurers”.

What to check

You will generally not be covered by Australian law if you have a dispute with a UFI, unless a prior arrangement has been made with the Insurer. You will need to check your insurance policy to see which legal jurisdiction you will be under if there are any disputes between you and the insurer, ie if a UFI is authorised in London you will need to go through the British legal system to have your dispute heard.

You can assess your risk when purchasing insurance through a UFI by investigating whether the laws/regulations of the UFI's incorporated country offers comparative or better protection for you than an Australian authorised insurer. It is also important to be satisfied that the Insurer has the financial capability to pay claims today and in the future and that they are a legitimate incorporated Insurer.

Issues you may like to investigate include:

1. What country is the Insurer incorporated in?
2. Does that country have a Financial Supervision Scheme for Insurers?
3. Is the Insurer registered as a general insurance company with the country they are incorporated in?
4. How do the regulatory standards of that country compare to APRA's?
5. How much paid up capital does the insurer have?
6. What reinsurance facilities does the UFI have in place?
7. Under which country's laws will any disputes be determined?
8. What is the insurer's security rating (eg through Standards & Poors or Moody's rating agencies)?

Your broker is required by law to inform you that you are purchasing insurance through a UFI and will send you a disclosure form for your signature along with your invoice and policy papers.

Visit APRA's website: www.apra.gov.au to obtain a list of insurers authorised to sell insurance in Australia.

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Disclaimer: While every effort has been taken to ensure the contents of this information sheet are accurate, NCOSS accepts no liability for any loss or damage which may be incurred by any person acting in reliance upon the information.

NCOSS Insurance has established a nation-wide bulk buying insurance scheme and provides information and education on insurance and risk management for the not-for-profit sector. To obtain a quote for NCOSS Community Cover contact Aon Risk Services toll free 1300 363 764 and mention NCOSS.