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21 June 2021

## **Submission - Role of the Private Insurance Market – Independent Strategic Review: Commercial Insurance**

Securities Exchanges Guarantee Corporation Ltd (**SEGC**) welcomes the opportunity to make a submission into the consultation on the Role of the Private Insurance Market – Independent Strategic Review: Commercial Insurance (the **Consultation**).

SEGC is the trustee of the National Guarantee Fund (**NGF**). The NGF is a compensation fund that provides compensation for certain losses incurred by investors trading on the ASX Ltd (**ASX**) and Chi-X Australia Pty Ltd (**Chi-X**) markets due to certain acts of ASX or Chi-X market participants (**Participant**). The compensation regime is set out in Division 4 of Part 7.5 of the Corporations Act 2001 (Cth) and Corporations Regulations 2001 (Cth).

Compensation claims paid out of the NGF are not covered by insurance. These are paid out of the NGF, a fund of around \$100m which is administered by SEGC as trustee. The NGF (other than amount required for operating expenses) is held in two managed funds managed by UBS and Schroders (the **Managed Funds**), which we note only because it should reduce perceived risk of insuring SEGC.

SEGC's has two concerns with the current insurance market:

1. SEGC has been affected by most of the issues described in the Consultation paper - price increases, insurer withdrawal from the market and issues around coverage in relation to its financial lines insurance; and
2. SEGC is concerned by availability, coverage, and price of insurance for ASX and Chi-X Participants (many of whom are SMEs), where such insurance is seen at some level as a form of investor protection (in our experience, it does not serve this purpose).

SEGC is seen by insurers as operating in the financial services sector, but it does not provide any financial services and, as noted, compensation payment are not paid from insurance.

The answers in this submission are limited to those relating to availability and affordability of insurance.

### Section 3

#### **Availability vs affordability**

**Q3.1. Do you accept that, in general, insurance that is available but unaffordable is fairly priced?**

- a. **If yes, do you have any counterexamples (i.e. not fairly priced)?**
- b. **If no, please elaborate.**

In SEGC's experience, at least this financial year, SEGC does not accept that the insurance SEGC has been offered is fairly priced.

Until this financial year, SEGC had never had problems renewing its insurance on similar terms to the previous year. Even as premiums increased in the general market, our broker indicated that SEGC was the type of insured that was low risk and would balance other risks in an insurers portfolio and this appeared to be accepted by insurers.

While the SEGC Board was expecting an increase in premium this financial year owing to general market conditions, the actual increase far exceeded expectations.

This year, one of the previous year insurers refused to provide a quote as a result of a change in underwriting appetite. Terms were not provided until around 5 days before expiry of the policies. There was a 140% increase in premium quoted (i.e. a premium 2.4x the previous year) for professional indemnity and crimes insurance (**PI/Crime**) and an 85% increase in premium (i.e. a premium 1.85x the previous year) for Directors and Officers insurance (**D&O**). Deductibles doubled in both cases.

SEGC has an appetite for reasonably high deductibles. SEGC would have considered a substantially higher deductible if it reduced the premiums accordingly. However, this did not appear to be an option.

No reason was given for the 140% increase in PI/Crimes insurance. There is no indication that it was a repricing due to risk levels.

SEGC took the opportunity to conduct, with external assistance, an analysis of its areas of risk and the risks covered by the policy. The policy did not cover social engineering and would not cover anything that happened within the Managed Funds, fraud for instance, unless it involved SEGC's negligence in managing those arrangements. The PI/Crimes policy as offered, offers very little to the organisation for a significant premium.

As noted above, SEGC is also concerned about availability, affordability and coverage offered to ASX and Chi-X Participants, particularly in circumstances where a lack of insurance coverage could lead to the failure of a broker and an inability for investors to recover losses from the Participant. This is particularly so in the current environment of increased cyber risk.

If you have any questions about this submission, please contact Gabby Hart at [gabby.hart@segc.com.au](mailto:gabby.hart@segc.com.au) or on 02 8216 0231.

Sincerely



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