

DRAFT WORKING PAPER FOR SEADRIF WEBINAR

**SEADRIF Knowledge Series:
Financial Protection of Public Assets
Fact Sheet 2. Policy, Institutional, and Regulatory
Requirements**



**Disaster Risk Financing
& Insurance Program**

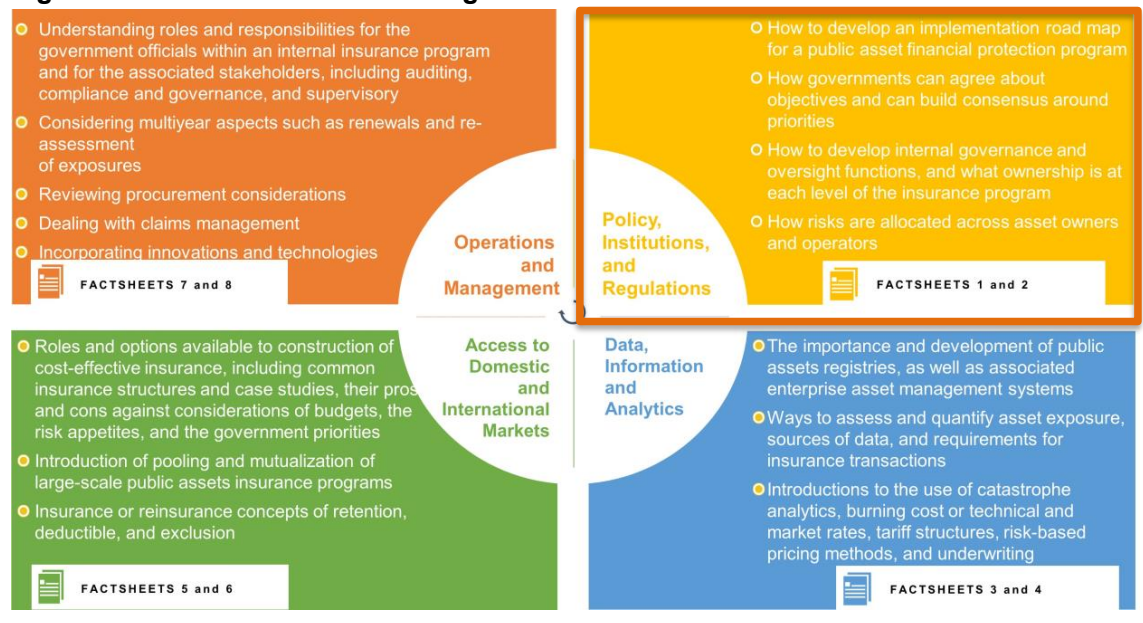


The SEADRIF Knowledge Series: Financial Protection of Public Assets

This second fact sheet¹ is part of a Knowledge Series that supports government officials as they develop their understanding of the steps needed to design, develop, deliver, and operate effective financial protection of public assets, particularly through risk transfer and insurance. The Knowledge Series encompasses an end-to-end development of public asset financial protection and insurance, as shown in figure 1 and figure 2. Figure 1 covers the thematic scope, while figure 2 shows where those topics are relevant in the journey of developing a public asset financial protection program. See previous fact sheets in this series for a more detailed introduction.

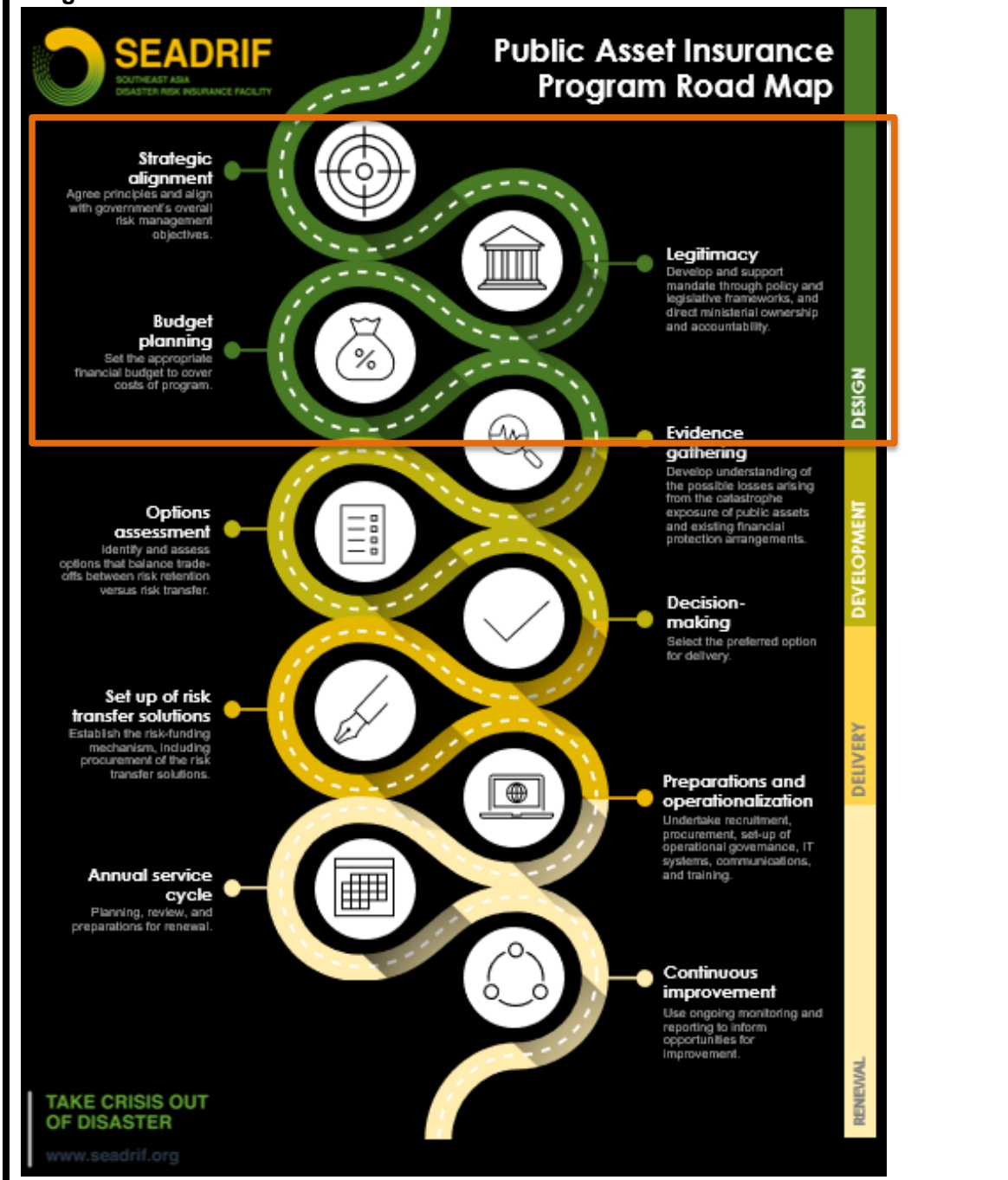
Each fact sheet will cover a major element of the process and will highlight considerations to assist government officials and other stakeholders who are tasked with developing solutions. New terminologies are highlighted in italics and defined in the glossary.

Figure 1. Overview of the Knowledge Series



¹ Drafted by Rob Antich and Greg Fowler, consultants, Disaster Risk Financing and Insurance Program, the World Bank, with inputs from Matthew Foote, Lit Ping Low, Nicola Ranger and Benedikt Signer. The draft will be refined and finalized after the series of SEADRIF webinars about public asset financial protection, and it will build on feedback from the SEADRIF members and other webinar participants. The findings, interpretations, and conclusions expressed in this fact sheet do not necessarily reflect the views of the World Bank, its board of executive directors, or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work.

Figure 2. High-Level Road Map for the Development of a Public Asset Insurance Program



Introduction

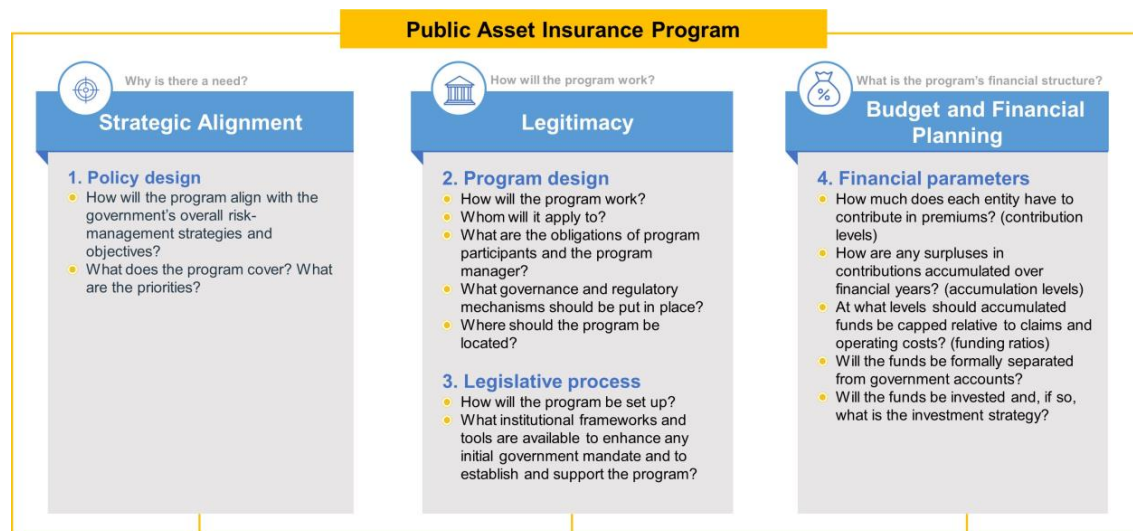
This fact sheet considers the important roles played by policies, institutional frameworks, and governance mechanisms in the design phase to establish and operate a public asset insurance program.

Critical first steps in developing a public asset insurance program are the following:

- The first step is to consider **why** there is a need for the program and the policy choices and objectives the program is intended to address (section 1).
- Once policy and program objectives have been determined, the second step is to consider **how** the program will work, which involves choices about program structure, mandate, powers, and governance (section 2), as well as **how** the program can fit within government regulatory frameworks (section 3).
- The third step is to determine the program's financial structure and funding parameters (section 4).

This fact sheet identifies the questions and issues relevant to the choices in figure 3.

Figure 3. Policy, Program, and Legislative Considerations



Although countries commonly face such considerations, policy and implementation choices will inevitably differ because of regional, political, and jurisdictional factors. To illustrate the types of choices made by other countries, annex 1 sets out case studies from Australia and New Zealand. Those studies reflect the experience of the two primary authors of this fact sheet.

1. Strategic Alignment and Policy Design

Public asset protection programs are a means to meet a number of policy objectives. Many of the objectives are complementary and should generally support and align with the government's overall objectives. It may also be necessary, though, to prioritize and make trade-offs between policy goals. For example,

- Should short-term relief and reconstruction expenditure take priority over long-term consolidation and protection of the government's balance sheet?
- Should the program prioritize transport, energy, or social infrastructure?

Table 1 shows the types of policy choices that governments often need to consider when deciding on the nature and extent of an asset protection program.

Table 1. Potential Policy Considerations about Financial Protection of Public Assets

Policy Objectives	Considerations
Core objectives: Fiscal and risk management	
Protect balance sheet (assets and liabilities).	Disasters simultaneously affect both sides of a government's balance sheet. Governments assume a significant proportion of the recovery and reconstruction costs, particularly for uninsured publicly owned assets. At the same time, disasters disrupt and reduce economic activity and the resulting government revenues. Taken together, those factors can slow the process of economic recovery and can increase the duration and scale of the effects on the economy, businesses, and households.
Improve economic resilience to shocks.	A common program goal is to retain and build government financial capacity to better withstand sudden and unexpected shocks, in turn reducing the physical, human, social, and economic consequences.
Strategically align with overall risk-management objectives.	The programs should align with the government's risk-management principles and the whole-of-government risk-management objectives.
Improve financial management.	Asset protection programs are also consistent with government policies that drive more effective expenditure of public money and more efficient management of public assets.
Improve the understanding of the government's overall challenges and its risk appetite in relation to those challenges.	Governments increasingly need to understand the whole-of-government challenges before them, particularly the gaps in financial protection when disasters damage public assets. Doing so enables governments to develop agreed positions, strategies, and risk appetites to manage and mitigate such challenges.
Complementary objectives: Economic growth and social resilience	
Align with social objectives on poverty	Government assets are commonly used to deliver key social objectives such as reducing poverty, improving employment

Policy Objectives	Considerations
reduction and service provision.	outcomes, enhancing community connectivity, and creating an economic stimulus. Improving the protection and longevity of those assets can deliver improved social benefits.
Support the growth of local insurance and capital markets.	In domestic insurance markets with sufficient capacity and capability, the medium- to long-term nature of asset protection programs provides opportunities to promote the growth of those markets, which in turn supports economic growth.
Complementary objectives: Improved risk and cost allocation efficiency	
Improve efficiency in national and subnational funding arrangements.	National governments are often the primary funders of subnational government activity, particularly public-facing infrastructure (transport, energy, and social services) and any relief-and-recovery efforts. Asset protection programs should complement and be consistent with existing arrangements.
Develop clear incentives for risk reduction and disaster preparedness.	Governments often do not allocate sufficient expenditure for works before the event, which may mitigate later effects of disaster events (betterment) and may provide potential future savings in relief-and-recovery expenditures.
Improve government and community incentives.	Asset protection programs can lead to improved policies related to infrastructure and other expenditure decisions. For example, programs could incentivize the planning for and location of public infrastructures and should recognize local (disaster and other) risks, their proximity, and their probability, so as to avoid a repetitive and inefficient replacement cycle.
Increase transparency in allocation of resources during natural disasters.	Funding toward disaster recovery is often allocated by governments, the private sector, and nongovernmental organizations (NGOs) through different mechanisms. Government choices include direct funding and indirect funding through subnational governments or third parties, as well as direct and indirect grants and social service supplements. The funding methods are often reactive (post-event) and fast. Such funding is also allocated inefficiently with inconsistent, overlapping eligibility criteria and with limited transparency and accountability. Implementing an asset protection program could reduce those inefficiencies and could improve resource prioritization and accountability.

The process of assessing those and other locally relevant policy choices should involve consultations with the following key stakeholders:

- Across government, priority stakeholders that include key financial government agencies (that is, ministries of finance and treasuries) and departments or agencies responsible for infrastructure and social service delivery

- With subnational governments, especially in relation to any proposed or potential changes in disaster risk and cost allocation settings
- The financial and insurance industry and community groups, which will account for wider technical and on-the-ground support mechanisms

The consultation process requires a dedicated investment of time and effort to engage across government and other stakeholders to clarify the key program objectives, principles, and scope. Through the consultation process, governments need to do the following:

- Decide on the key drivers, objectives, and principles of the program.
- Understand the choices and trade-offs that are being made (that is, what the priorities are, what the program is expected to do, and what it will not do).
- Communicate its decision to stakeholders to set and limit expectations about the program and its objectives.
- Consider how the program will be implemented.

2. Legitimacy and Program Design

After policy and program objectives have been determined, the next step is to consider how the program will work, which involves important choices:

- **Participation of government agencies and asset owners.** Is participation mandatory or voluntary? What is the implementation time frame and approach to bringing on new participants (a process sometimes known as “onboarding”)? What are the program obligations on participants and the program manager?
- **Governance.** What should the governance arrangements be? Where should the program be located—in a government department or a separate independent agency?

When the program is being designed, it is important to allow sufficient time and resources to accomplish these:

- Gather evidence and develop an understanding of the risks facing the government and the extent of possible financial exposure.
- Identify available options, and assess their suitability to meet the identified challenges.
- Consider the budgetary ramifications of each option (for example, the anticipated size of the fund and the potential costs of each option).

Program Participation

Relative Merits of Mandatory and Voluntary Participation

In many countries, there are degrees of decentralized ownership of public assets, whether at the government agency level or by geography (with regional governments and municipalities). A national public asset protection program will need to consider the extent to which it will involve such entities. This involvement can be done through a top-down mandate whereby all entities are included through legislation or a voluntary opt-in approach and whereby each agency has the autonomy to decide whether to participate within the scheme. Relative benefits and disadvantages of each approach are discussed in table 2. It is important to note that the decision is not binary, as illustrated in the New Zealand example (see annex 1).

Table 2. Relative Benefits and Disadvantages of Mandatory versus Voluntary Participation

Mandatory Participation	Voluntary Participation
<p>Benefits</p> <ul style="list-style-type: none"> • Including all relevant agencies by design makes it easier for the program to achieve a level of scale because risks are well-diversified and operational economies of scale are achievable. A larger program 	<p>Benefits</p> <ul style="list-style-type: none"> • Government agencies retain a strong perception of individual accountability and autonomy in risk management. • There is greater flexibility for government agencies to customize their financial

should attract better negotiating and buying power in the private market.

- There is less adverse selection risk under a mandatory scheme, which avoids a concentration of higher-risk participants.
- Confirmed participation allows more accurate forecasting of revenue and expenditure, resulting in less-volatile contribution costs.
- Program reporting requirements will lead to making the resource allocation and expenditure decisions of participating agencies more visible, and to improving transparency and accountability of the public expenditure.
- The accumulated information and expertise within a mandatory scheme are a public good. It should be shared among the program participants and more broadly across government to improve whole-of-government decision-making.

Disadvantages

- Common program processes may lead to inflexibility and a one-size-fits-all mentality. This approach may limit or inhibit consideration of individual agencies and their specific risks and challenges.
- Agencies may resent the loss of control and withdraw support for the program by failing to meet program reporting requirements or by lobbying the government to leave the program.

protection to their specific needs.

- If government agencies test alternative approaches, this testing can create a competitive environment and can encourage cross-learning and continuous improvement.

Disadvantages

- Without broad participation, the program may not capture the potential economies of scale across government, and the program will likely have weaker negotiating power with insurers.
- Voluntary participation presents adverse selection risk where government agencies with less mature risk-management practices are more likely to join the program, thereby resulting in higher claims per contribution or premium input.
- Inconsistent participation can make it difficult for revenue and expenditure forecasting and for determining the most cost-effective split between risk retention and risk transfer.
- There may be insufficient incentives to overcome a reluctance to allocate resources to important, nonessential assets.

Implementation Time Frame: A Phased Onboarding Approach

One option for program implementation, even for programs with mandatory participation, is for a phased implementation approach. A phased approach allows program participants to join the program in smaller groups that are staggered over a period of time to allow each adequate time to adopt its systems and processes to the program. This approach would

allow the program manager to develop and test program services over time and to build their capacity, scale, and expertise.

If a phased approach is likely to be adopted, the program design should explain how groups are selected and when each will join the program. This decision could be based on group or participant exposure by asset category, entity, or expenditure type (such as emergency relief), or by type of risk, technical capacity, and participant risk maturity.

Program Obligations of Participants and Program Managers

It is essential for the success of the program that the program manager builds and maintains strong and effective relationships with program participants. Key to this success is the need to clearly set out the obligations and duties expected of both the program's participants and its program manager. The nature of the obligations will vary depending on a range of factors:

- The program mandate
- The level of choice as to participation (mandatory or optional)
- The level of the participant's government employment (national or subnational)
- The timing of the participant's entry into the program (early or late)
- The types of requirements imposed by reinsurers
- The approaches to managing liability from financial and legal perspectives
- The mechanisms to enforce program policies

Those policies often set out how the program will operate, what it will and will not cover, and what expectations and conditions apply to the program and its participating entities. The obligations are likely to include those set out in table 3.

Table 3. The Obligations on the Participants and Program Managers

Participant Obligations
<p>Initial obligations include these:</p> <ul style="list-style-type: none"> • Information collection and disclosures • Participation and disclosure as part of the risk transfer to private markets (for example, cooperating with reasonable requests for further information from the program manager and reinsurers) • Duty of care throughout the programs (in other words, the types of behaviors expected) • Contributions (as required) to market-facing presentations • Implementation of risk-management frameworks, plus the meeting of other expenditure accountability and reporting arrangements by governments
<p>More specific behavioral obligations could include these:</p> <ul style="list-style-type: none"> • A duty to disclose information that is material to a participating entity's risk profile (for example, a duty to provide up-to-date and relevant information about all of the entity's assets)

- A duty to disclose or notify about damage as soon as reasonably possible
- A duty to take reasonable steps to minimize further damage after a loss event occurs
- A duty to exercise reasonable care to protect against losses before they occur
- Compliance with the terms of cover set out in insurance policies
- An obligation to ensure that staff members are aware of their responsibilities under relevant legislation, regulation, and instructions

Program Manager Obligations

- Act as government's representative in risk-transfer market engagements.
- Represent the participant in market negotiations with utmost good faith.
- Ensure that risk-transfer protection is effective and continuous.
- Establish service-level agreement criteria, key performance indicators, and a service charter against which program manager services are measured. An important aspect is how the program manager will respond to and manage claims.

The extent to which such obligations are communicated, understood, and adhered to by both participants and the program manager will be critical to the program's effectiveness. For example, if relevant information about the location, value, and condition of key assets is not included in an asset register or is withheld from the program manager, that lack will affect the program manager's ability to insure that asset, manage any claim, or undertake any effective risk-management strategy in relation to that asset.

Risk Management

Asset protection programs can play an important role in driving fundamental improvements in risk-management behavior, especially because such programs often require government entities to implement robust enterprise risk-management frameworks. Those frameworks include establishing risk-management policies, undertaking training for all relevant staff members, developing risk registers, identifying risk owners and the mechanisms for identifying and escalating emerging risks, and regularly reporting and monitoring risks through appropriate tools. The processes are aimed at improving the management of government assets and liabilities through a more consistent, measurable, and maturing approach to risk management.

Ultimately, improved risk-management practices can contribute to greater resilience within government agencies. It can also lead to reducing negative financial impacts from natural disasters and to supporting the longer-term financial viability of the program.

Data Sharing

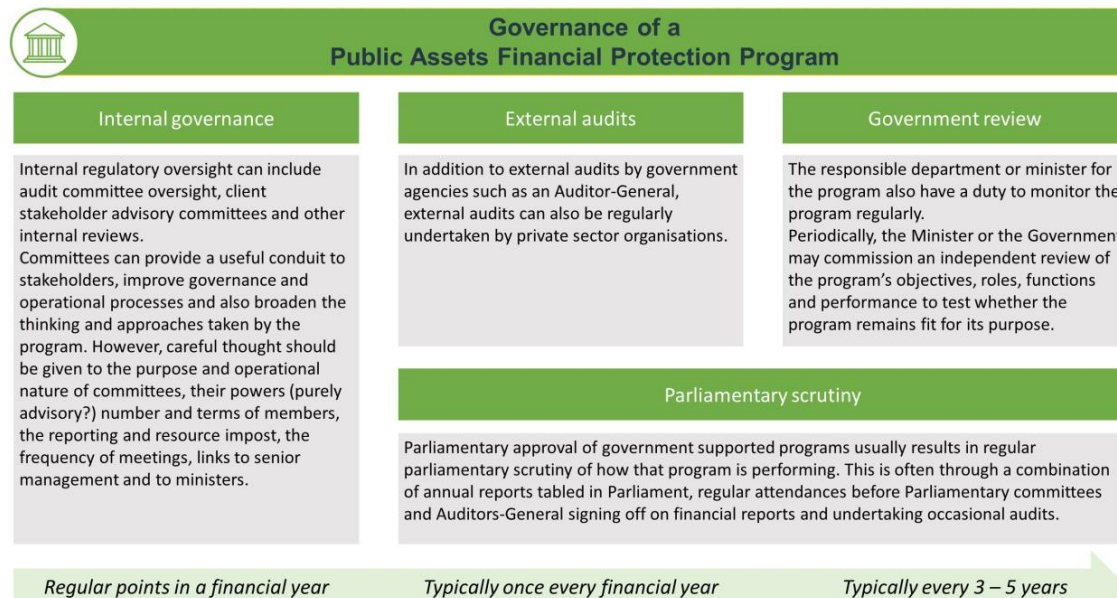
The importance of data to the program cannot be overstated. The data inform every stage of program design, development, and delivery, and it informs a whole-of-government risk analysis, thus enabling improved risk profiles as well as better allocation of resources and

mitigation expenditure. The ongoing updating and reviewing of data are essential to ensuring cost-effective renewal and reduction of operational risks as a result of potential underinsurance or poorly priced insurance costs from inaccurate data. Fact sheets 3 and 4 will explore data in more detail.

Governance

Effective oversight is critical. Strong oversight and governance mechanisms enhance accountability and responsibility, encourage trust between the program and participants, improve reporting, and help realize potential program benefits. Key elements of program oversight can include external parliamentary and governmental scrutiny and internal program governance, which are discussed in figure 4.

Figure 4. Potential Governance Mechanisms



Organizational Set-up

The program design needs to consider how and where the program is set up from an organizational perspective. Options could include one or all of the following:

- Keep the program within an existing government department.
- Set up a program manager or unit within an existing department with limited independence (meaning separate bank accounts and increased decision-making capacity).
- Establish an independent government agency to manage the program.

Each option would again be informed by the policy and program designs and jurisdictional practices. For example, if there is a strong desire to closely manage funding flows, an option internal to government, such as within the finance department, might be preferred. If agency independence and transparency are key drivers, an agency independent of government departments may be required.

3. Legitimacy and the Legislative Process

Once participants agree to the key aspects of program design, the next step is to consider how the program can be activated and given legitimacy under existing government regulatory and institutional frameworks.

Governments usually operate under frameworks that control how public monies are appropriated, provided to government agencies, expended, and accounted for. Those frameworks often include national constitutions, parliaments and parliamentary committees, independent auditors-general, administrative tribunals, and courts. The mechanisms and tools used by the institutions to ensure the government and its agencies comply with such frameworks usually include legislation, regulations, ministerial directions, rules, and by-laws.

In some cases, the basic elements of the program may have already been created through legislative processes (such as establishing the initial mandate for the program) before developing an understanding of all relevant policy and program choices. Once the choices have been determined, consideration then turns to choosing the right process to fully establish the program.

When the government expects the program to have a long-term focus, it is generally preferable to establish the program within frameworks requiring that modifications be done in a transparent manner. For example, if the program is established through legislation or an act of parliament, then the same legislative process should be used to ensure transparency when future governments seek to change key aspects of the program (for example, change the use or allocation of money).

If this approach is adopted, one must consider what aspects of the program such tools (acts of parliament and similar primary tools) will affect. Might they affect the guiding principles of the program such as the policy design objectives, the major goals of the fund, the powers of the program manager, or the mechanisms to review the exercise of programmatic authority and reporting obligations? Amending or changing such features would fundamentally alter the purpose and intent of the program. All of them constitute the bare-bones structure of a program to which further operational details can be added on separately.

Indeed, operational aspects of the program, which are likely to require regular change over the short to medium term, should not be included in the primary tools because the relative inflexibility of amending such tools can lead to noncontentious program changes being unnecessarily delayed, thus having a negative impact on the program and operational needs. For operational matters, subordinate tools (regulations, ministerial directions, rules, by-laws) tend to be more appropriate because they can be amended relatively easily but still offer both transparency and accountability, particularly when combined with some of the other governance and reporting mechanisms referred to in this fact sheet.

Ultimately however, the approach taken in each jurisdiction will depend on the regulatory institutions in place and the existing laws, rules, and practices. Whichever approach is taken, converting choices into a legitimizing framework will always be time-consuming and is likely to involve some degree of trial-and-error.

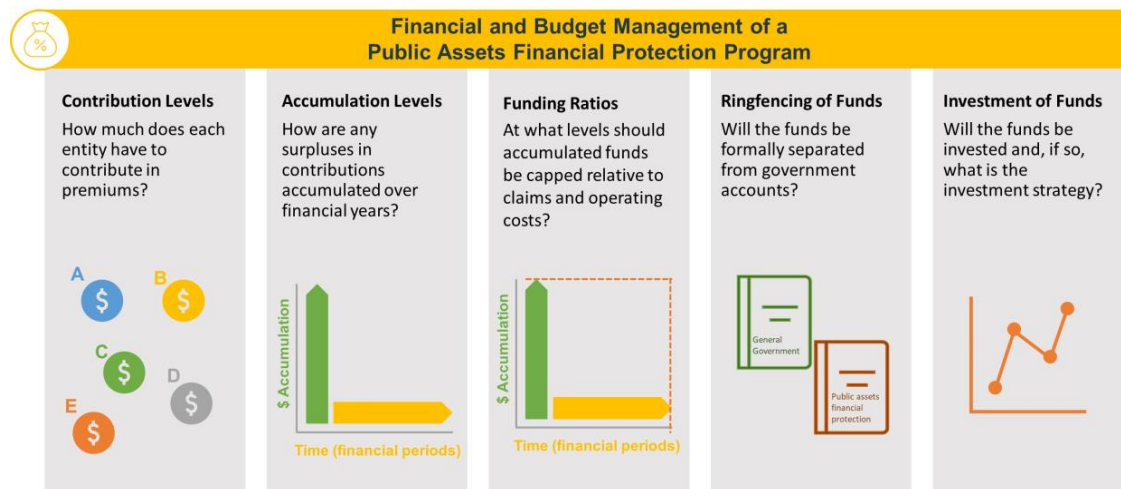
4. Budget and Financial Planning

Defining the program's financial parameters is another essential element of program design. Key aspects to be considered include individual contribution levels, accumulation levels, and funding ratios. Those aspects will collectively determine the size of the program and its ability to respond to larger disaster events.

Other financial management issues include deciding whether fund monies will become ring-fenced (separated from government accounts) or will sit within general government expenditure, as well as deciding whether or how surplus funds and deficits will be invested. Those decisions determine the extent to which the program is protected from political and market changes.

All the parameters are interlinked to some extent, so they need to be considered together. Their interrelationships are illustrated in figure 5.

Figure 5. Considerations of Financial Parameters



Contribution Levels

If the program is to be at least partly funded through premium contributions from participating entities, the contribution levels need to be based on a number of transparent and defensible factors. Because most government agencies are funded from government budget allocations, the contribution levels will form part of the agency's overall budget. Consequently, the introduction of agency contributions or any increases to current agency contribution levels will have to come from existing agency funding, unless additional government funding is obtained.

Participating agency contributions are usually determined by one of the following methods:

- **Risk-based pricing.** Pricing reflects the type of risk a participating agency introduces to the program (that is, the agency's risk profile). Those factors include the type of assets

introduced; the age, quality, and location of those assets; claims history; and organizational risk-management maturity.

- **Solidarity (or unit-based) pricing** (an alternative to risk-based pricing). When one uses this method, a unit of exposure or operation is identified, and participating agencies pay a flat share in accordance with the number of units attributed to them. For instance, a unit of exposure could be a measure of property size (for example, square meter, or sqm).

Accumulation Levels

Decisions will need to be made as to whether contributions will be accumulated within the fund and, if so, the rates at which public funds (either participating entity contributions or a centrally funded reserve) will be accumulated over time.

Key considerations attached to accumulation decisions include these:

- The trade-off between building accumulated financial resilience within the program versus the opportunity cost associated with funds not being used for other government priorities
- The amount of risk to be transferred to (re)insurers, a high level of which will reduce first the retained risk exposure and then the actual or perceived requirement to accumulate funds over time
- Broader legislative settings that may prevent or limit the accumulation of public monies over multiple financial years
- The level of confidence in asset data-and-loss modeling integrity, which would allow governments to better target the amount of funds required to manage foreseeable events, versus an open-ended accumulation approach.

If a form of funds accumulation is permitted, it is important that the legislation or regulation supporting the program clearly and concisely defines (a) the purpose of the fund, (b) the fact that it is reserved for a specific reason, and (c) the exceptional circumstances under which the fund can be tapped for any other reason. This definition is important because it supports sustainability of the fund through changing administrations and government priorities.

Funding Ratios

The funding ratio of a program is the ratio of revenue (participating entity or central government contributions, plus reinsurance claims payments) to expenses (retained claims and operating costs). A 100 percent funding ratio means that the fund is breaking even and that the incoming revenue equals the outgoing expenditures and claims.

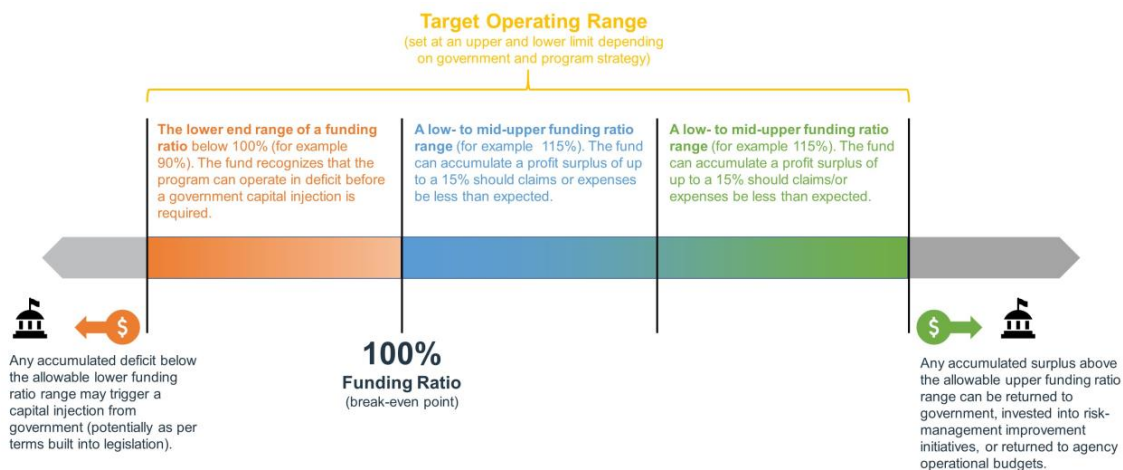
A reasonable approach will be to determine an acceptable range for the funding ratios, known as the target operating range. The program manager will then need to take specific actions as agreed within the program's policies and approved by the governance

mechanisms, which could include injecting additional capital when financial resources fall below the range or reducing contribution levels when they go above.

As noted in figure 6, the target operating range is typically a reflection of the program's underlying strategy. A high upper funding ratio range allows for swifter financial resilience by way of a higher tolerance for holding accumulated surpluses over multiple financial periods.

A lower funding ratio range is usually suggestive of either a legislative or fiscal obstacle to accumulating funds or a greater budgeting certainty through experience and quality financial modeling. (See figure 6.)

Figure 6. Developing a Strategy around Target Operating Range



Ring-fencing of Funds

How program funds are held within government is another critical issue. Formally separating program funds from general government funds (ring-fencing) is a strong endorsement of the program mandate to build national resilience by (a) limiting the ability of future governments to use program funds for non-program-related activities, (b) providing public transparency and accountability, and (c) giving stakeholders confidence that the program will function as intended, thereby encouraging their ongoing participation and support.

Alternatively, ring-fencing may result in an opportunity cost of not being able to use program funds for more pressing national priorities. One option that maintains program transparency while still making program funds available would be to identify the program risk as a line item in the government's contingency reserve fund.

Investment of Funds

If program funds are ring-fenced, a further consideration is how program funds are managed before being spent under the program. This approach is likely to depend on the prevailing

government policies for managing government income, which dictates whether and where money can be invested, for how long, what the level of liquidity is, and what the expected rates of return are. Given the nature of the program, governments are unlikely to expand the program manager's authority to invest outside current government policies.

Conclusion

The journey to design and build a public asset insurance program is a long one. Its key initial design steps are government consideration of why a program is needed, how the program is expected to address those needs, and how the government will establish and operate the program. As noted in this fact sheet, such questions require governments to undertake significant evidence gathering, analysis, and stakeholder consultation in order to make informed choices about the following:

- The policies and objectives that the program is intended to address
- Program structure, program mandate, participation obligations, and program governance
- Financial structure and funding parameters

Once the policy, program, and regulatory framework is prepared, a foundation is set for developing and delivering a customized and sustainable program for public assets financial protection.

Annex 1. Australian and New Zealand Case Studies

Australia

Background

The Australian case studies will consider one national self-managed insurance fund and three subnational (state and territory) funds. A managed fund is a form of self-insurance that operates by collecting premiums from participating fund members, by accumulating reserves, and by meeting future losses from those reserves.

Comcover is the Australian government's self-managed insurance fund that established in 1998². The three subnational state and territory funds considered are in the jurisdictions of the Australian Capital Territory, New South Wales, and Victoria.

- **Australian Capital Territory (ACT).** The Australian Capital Territory Insurance Authority (ACTIA) is a government agency established in 2005 as the ACT government's captive insurer. It also insures ACT risks with reinsurers, and it develops and promotes risk-management practices within ACT government agencies.
- **New South Wales (NSW),** In 1989, the NSW government established its own managed fund (now called icare, for "insurance and care") to compensate government agencies for any loss or damage to public assets from unexpected events including natural disasters. NSW's icare also reinsures its risks through the private market.
- **Victoria.** In 1996, the Victorian government established the Victorian Managed Insurance Authority (VMIA) to provide risk management and insurance to government agencies. VMIA also reinsures its risks through the private market.

Strategic Alignment

How will the program align with the government's overall risk-management strategies and objectives?

Comcover was established following a 1997 independent review, which recommended that the Australian Government needed to consolidate the management and insurance of Australian Government assets. Comcover came into being on July 1, 1998, and replaced the policy of noninsurance that had existed since the early 1900s, which left each agency to manage its own risks independently, which did not aggregate risks or liabilities in a transparent way, and which did not incentivize agencies to manage their risks effectively (liabilities were simply managed on an ad hoc basis through increased budget allocations).

² Source: <https://www.finance.gov.au/government/comcover/about-comcover>.

Comcover's key business objectives are to promote best-practice risk management for its 170 government fund members to enable them to improve policy formulation and service delivery. It also provides a comprehensive insurance fund to protect against negative impacts of insurable losses. Those objectives were reaffirmed by the Australian Government in 2007, 2011, and 2014. Comcover initially obtained reinsurance from the private market between 1998 and 2002. However, since then, it has preferred to entirely self-insure because of its ready access to funds (and its ability to increase funds through taxes) and its wish to avoid private-sector insurance costs.

Comcover's mandate extends only to Australian government assets and does not include state and territory assets, because they are owned and managed by each state and territory, primarily through their own self-insurance fund. Australian government expenditure on natural disasters (primarily floods and bushfires) is not managed by Comcover but through separate Australian government arrangements with the states and territories, primarily through the National Relief and Recovery Arrangements.

The state and territory managed funds were created for reasons similar to the reasons for creating Comcover, and they included the need to undertake a whole-of-jurisdiction approach to risk assessment and management and to improve their overall risk-management and risk profile to obtain better terms and conditions from the private market. The state and territory funds all reinsure their risks to some extent as a result of their increased asset base (schools, hospitals, roads, energy infrastructure, etc., that are almost entirely owned by the states and territories), and also because of their more limited ability to raise taxes to meet expenditure shortfalls.

What does the program cover? What are the priorities?

The Australian funds (including Comcover) generally follow the classes of insurance cover offered by the market, which consist of liability, including general liability; professional indemnity and directors' and officers' liability; property, including property-in-transit, fraud, and Business Interruption; motor vehicle; and personal accident and travel, including personal effects and medical emergencies.

Legitimacy

Who will it apply to?

Comcover mandates fund participation for all government agencies that are budget-funded within the government sector (departments of state and noncorporate entities) but not government corporate entities or government businesses. ACTIA, icare, and VMIA generally follow this approach, with some local variations. VMIA has the broadest remit of Australian jurisdictions (4,600 entities) covering all government agencies with \$AUD200 billion of state

assets including the road and rail systems, hospitals, schools, cultural institutions (art galleries and museums), cemeteries, and national parks.

What are the obligations on program participants and the program manager?

The Comcover Statement of Cover (SoC) sets out the obligations of Comcover and entity fund members. The SoC is a policy statement that is “insurance-like” and that requires fund members to comply with insurance-like obligations of full disclosure. It provides up-to-date information regarding asset registers, claims, major changes in risk profile, and so forth. Comcover in return has a range of service obligations to fund members relating to information management, confidentiality, handling of claims, timeliness, and provision of a range of risk-management services.

ACTIA, icare, and VMIA have a similar arrangement with their fund members, both through their own versions of an SoC, which springs from the requirements of their reinsurers.

Since 2014, Comcover fund members have been required by the Australian Government to comply with the Australian Government’s Risk Management Policy, which requires fund members to implement a range of enterprise risk-management practices.

As part of its services, Comcover annually undertakes a benchmarking survey of fund members to assess their overall risk maturity. Since 2014, the survey has assessed maturity against the nine elements of the Australian Government’s Risk Management Policy. Survey questions relate to the content of an organization’s risk-management framework and policy, extent and use of risk appetite, types of information gathered and how it is assessed, risk accountabilities and responsibilities, risk culture, and ongoing system review. Although survey results are provided only to Comcover members and are not made public, an annual government publication³ provided an overview of the 2017–18 Comcover survey. The overview noted “a consistent increase in risk-management maturity in the four years since the Risk Policy was introduced. Data from 2018 found modest improvements against all of the policy’s nine measures. Entities scored best in establishing risk management policies, embedding systematic risk management and defining responsibilities for managing risk.”

Similar risk-management obligations on government fund participants also apply in the ACT, NSW, and Victoria.

What governance and regulatory mechanisms should be put in place?

Comcover regularly reports to the Finance Minister and reports twice a year to Parliament on its financial performance, but Comcover does not publish a separate

³ Australian Public Service Commission Report (2017-2018). <https://www.apsc.gov.au/state-service-report-2017-18>.

annual report. Comcover is subject to audits by the auditor-general. The Australian Government commissioned independent reviews of Comcover in 2007, 2011, and 2014, all of which supported continuing the Comcover fund in its present form.

ACTIA reports to the ACT treasurer, icare to the NSW finance minister, and VMIA to the Victorian minister for finance. The three all publish annual reports.

Where should the program be located?

Comcover is located within the Australian Government's Department of Finance and uses a dedicated government account to manage its financial transactions. ACTIA, icare, and VMIA have all existed as separate agencies independent of the finance and treasury departments, all have separate financial accounts, but all have close reporting links to those departments.

What institutional frameworks and tools are available to enhance any initial government mandate and to establish and support the program?

Comcover's framework is a combination of a government decision to establish the fund, which is a ministerial determination from the finance minister to set up a special account that administratively manages Comcover funds, plus administrative arrangements within the Department of Finance to manage the fund.

ACTIA was established as an independent statutory agency under the ACT Insurance Authority Act 2005. In 1989, icare was established by legislation and was substantially amended in 2015 both by Acts of NSW Parliament and Ministerial regulations. In 2012, the NSW Treasury issued a circular requiring all agencies other than electricity generators and suppliers to use icare for all their insurance requirements and to comply with icare insurance requirements. VMIA was established by the Victorian Managed Insurance Authority Act 1996. The Victorian minister for finance has also issued risk-management and insurance standing directions under the Financial Management Act of 1994, which requires Victorian agencies to comply with VMIA insurance requirements.

Budget and Financial Planning

What is the appropriate financial structure of the program?

Comcover's current policy is that it should be fully self-funded (that is, no external risk transfer) with budget funding to be sought if assets fall below zero and with funds returned to the budget when assets exceed \$AUD150 million. ACTIA has a target funding ratio of 100 percent and manages its capital position between 100 percent and 120 percent. Furthermore, icare maintains net assets between 105 percent and 115 percent of liabilities. VMIA prefers a funding range of 82.5–117.5 percent.

The Comcover fund has a special account to administratively manage Comcover funds and expenditure. The account funds, while administratively separate, sit within the government's overall consolidated revenue fund and are subject to the Australian treasury's overall investment strategy. Other Australian states and territories largely follow this approach as governed by their specific legislative and regulatory mandates.

New Zealand

Background

The New Zealand government is currently considering the establishment of a managed fund to protect and insure public assets. Options that may be considered include variations of government and private market cover.

Strategic Alignment

What policy and program objectives should be considered when designing a financial protection program for public assets?

Current considerations for creating the New Zealand fund include these:

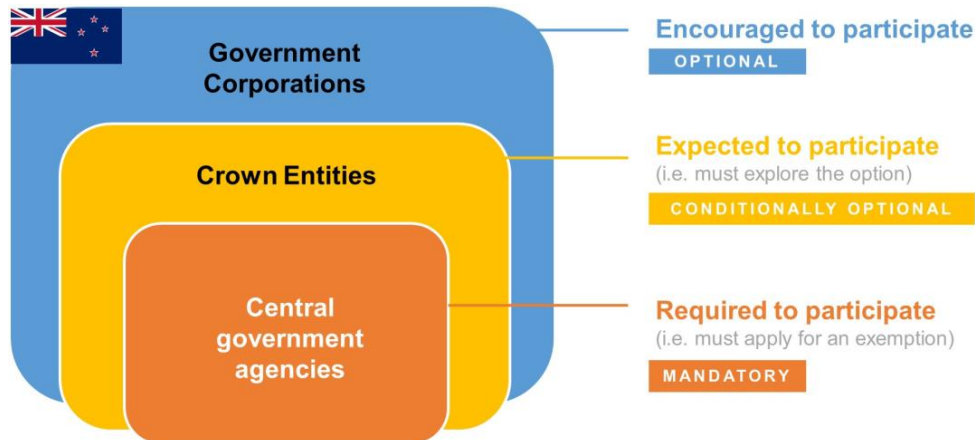
- Improved national resilience during natural disasters, particularly earthquakes
- Improved fiscal and risk management consistent with the government's current fiscal and budget agenda
- Clear linkages to the four key priorities in the government's Living Standards Framework (natural capital, human capital, social capital, and financial and physical capital), all of which are underpinned by a requirement for resilience
- A need to provide central government decision-makers with a clearer understanding of government residual risk and with improving risk-management maturity and practices within and across government.

Legitimacy

Whom will it apply to?

Current considerations in the proposed New Zealand approach include a participation mandate that is strongest for central government agencies (that is, ministries and departments). The obligation for participation would be lower for agencies that are farther away from the central government, as illustrated in figure A.1.

Figure A.1. Participation Obligations in New Zealand Public Asset Financial Protection program



What are the obligations on program participants and the program manager?

New Zealand is considering onboarding agencies in a staggered process (that is, groups of agencies are transitioned into the program at annual intervals). Initial groups would focus on agencies with the following attributes:

- Geographic spread of risk
- Assets of reasonable resilience
- Collective scale that enables prudent self-insurance
- An already relatively mature approach to risk management
- An ability to deliver data that supports measurement of risk.

This transition approach is designed to accomplish the following:

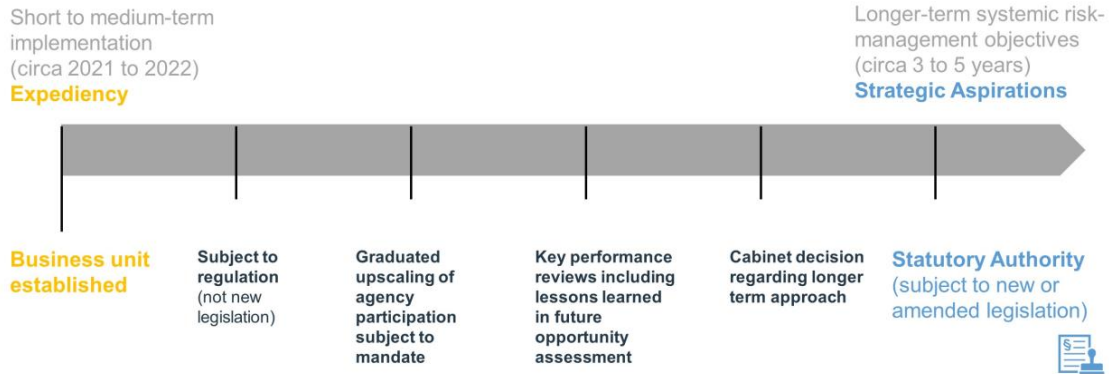
- Manage change over time, thus minimizing change shock for agencies.
- Allow the accumulation of better risk-management data.
- Develop greater certainty through improved data.
- Use the principle of prudence in the sense that the solution accepts risks only within acceptable certainty tolerances.
- Shift in a coordinated fashion toward the point of greatest value.

Where should the program be located?

In the short to medium term, New Zealand is considering a proposal to establish an interim or initial business unit within an existing central government agency. This placement allows for an expedient implementation. As the New Zealand government considers its broader, strategic risk-management objectives, this operational location may transition to a dedicated,

standalone risk-management functional lead, thereby acting as a center of expertise for government.

Figure A.2. Organizational Set-Up Plan for New Zealand’s Program

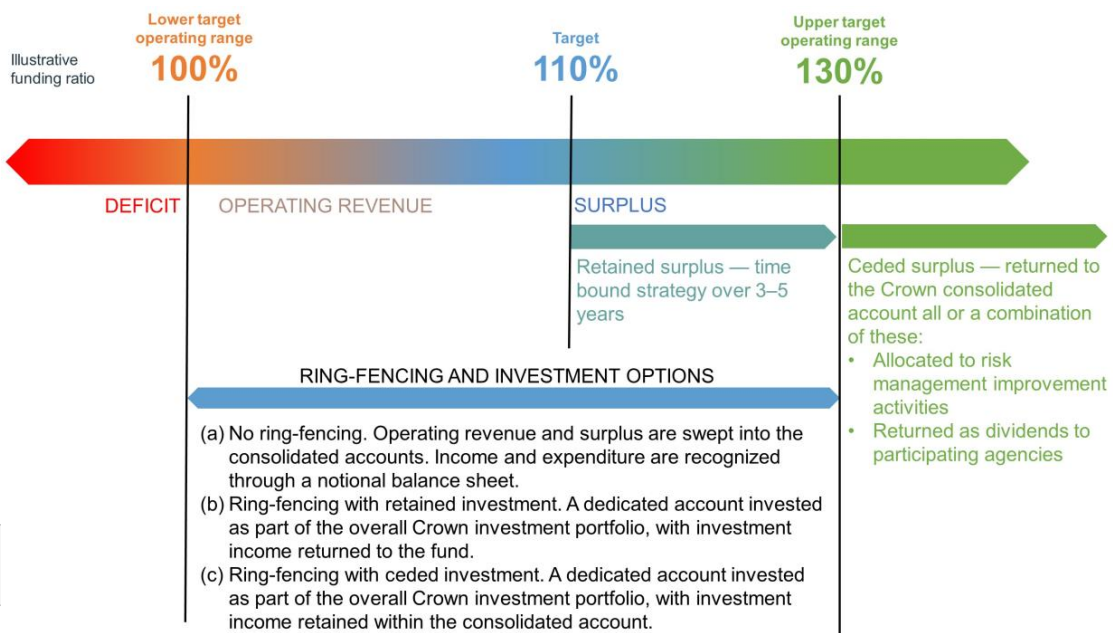


Budget and Financial Planning

What is the appropriate financial structure of the program?

The New Zealand government is currently considering its approach to program surplus or deficit management through a funding ratio lens. Figure A.3 outlines the framework of those considerations. No funding ratio decisions have yet been made.

Figure A.3. Options for the Financial Structure of New Zealand’s Program



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Glossary of Selected Terms

Adverse selection	A situation where either sellers or buyers have more information than buyers have about some aspect of product quality.
Captive	An insurance company that is wholly owned and controlled by its insureds. Captives are used to reduce external administrative fees, to self-insure certain risks, and to act to seek reinsurance coverage. Underwriting profits are retained by the insureds.
Claim	A formal notice and request for compensation by an insured to the insurer or a cedant insurer to a reinsurer under the terms of the policy between them.
Compliance	The process of ensuring that insurers are operating within the requirements stipulated by regulators and the law. Compliance processes are both external and internal to the insurer.
Deficit	Applies when the financial assets of a risk-financing vehicle are less than its liabilities over a defined financial period.
Event	A situation that will cause a claim against a policy. The definition of an event and its duration will vary by the type of peril and terms of the policy.
Exposure	The situation or characteristics of the insured assets that could lead to a loss. For public assets, exposure could refer to the character of its structure, its value, and its vulnerability or resilience to the type of peril being considered.
Indemnity	Security or protection against a loss or other financial burden.
Indemnity insurance	An insurance agreement where one party (an insurer or reinsurer) guarantees payout for losses sustained by the insured party under the terms of a policy.
Insured (assured)	The entity or entities who are covered under the policy issued by the insurer or reinsurer.
Liquidity	The ease with which an asset or security can be converted into ready cash without affecting its market price.
Loss (claim)	The damage or negative financial impact suffered by the insured. A claim for the loss will be made by the insured to the insurer under the terms of the policy.
Market	The business of insurance and reinsurance. Used to define the general form of business conditions that exist and that influence the price, capacity, and terms of insurance or reinsurance. Markets can be defined as hard (premium is higher, policy terms are more favorable to the insurer) or soft (premium is lower, policy terms are more favorable to the insured). Market conditions tend to follow cyclical trends.
Opportunity cost	The loss of other alternatives when one alternative is chosen.
Policy	The time-limited contract between the insured or reinsured and insurer or reinsurer that details the terms under which the insurer or reinsurer will compensate the insured or reinsured.
Premium	The agreed price paid by the insured or reinsured to the insurer or reinsurer for the coverage provided. It is derived using the rate and value of the insured assets.
Professional indemnity	It covers legal costs and expenses incurred in your defense, as well as any damages or costs that may be awarded if you are alleged to have provided inadequate advice, services, or designs that cause your client to lose money.
Regulator	An entity authorized to conduct oversight and supervision of insurers, reinsurers, and brokers within a certain market.
Reinsurance	The insurance of insurance companies. It provides the means for insurers to cede

	part of the risk they have accepted, usually to reduce loss volatility and to protect capital.
Reserves	Funds kept available by a bank, company, or government.
Residual risk	The amount of risk or danger associated with an action or event remaining after natural or inherent risks have been reduced by risk controls.
Retention	The amount of monetary loss that the insured remains liable for after a claim and is therefore not insured or reinsured for. In the event of a limit being set, the insured will retain any loss in excess of that limit (also termed “overspill”).
Risk appetite	The risk that an entity is prepared to retain, transfer, or cede. Can be applied to both insured and insurers or reinsurers. Usually determined by the management of the entity and determines risk-transfer strategy.
Risk exposure	The measure of potential future loss resulting from a specific activity or event.
Risk profile	The threats to which an organization is exposed.
Self-insurance	Insurance of oneself or one’s interests by maintaining a fund to cover possible losses rather than by purchasing an insurance policy.
Surplus	Applies when the financial assets of a risk-financing vehicle are greater than its liabilities over a defined financial period.
Transaction	The process of agreeing to insurance or reinsurance under terms of the policy and for the agreed premium.
Transfer	Risk transfer is a risk-management and control strategy that involves the contractual shifting of a risk from one party to another (for example, (re)insurance).

Factsheet 2: Policy, Institutional, and Regulatory Requirements

Test your knowledge and record your insights through this easy, DIY worksheet!

Activity 1: Identify key stakeholders and their institutional responsibilities towards protection of public assets

A successful public assets financial protection program depends upon clearly set out obligations and duties of the different stakeholders/ team members. Identify (✓) the obligations of participants & program managers.

Action	Program Participants	Program Manager
1. Represent the participant in market negotiations with utmost good faith.		
2. Ensure risk transfer protection is effective and continuous		
3. Establish service-level agreement criteria		
4. A duty to exercise reasonable care to protect against losses before they occur		
5. Report or notify damage as soon as it is reasonably possible		
6. Maintain compliance with the terms of cover set out in insurance policies		
7. Be a government representative in risk-transfer market engagement.		
8. Contributions (as required) to market-facing presentations		

Activity 2: Identify the Frequency of Governance Review by Various Governance Bodies

Strong governance mechanisms help realize potential program benefits. Select the ideal frequency of governance review that needs to be conducted by different governance bodies.

Governance Body	Ongoing (specify frequency)	Annual (specify details below)	Once every 3-5 years (add notes below)
1. Internal Governance			
2. External Governance			
3. Government Review			
4. Parliamentary Scrutiny			

Activity 3: List Policy Objectives for Financial Protection of Public Assets Program.

Public asset protection programs are a means to meet a number of policy objectives. List three core and three complementary objectives for your public asset protection program.

#	Core Policy Objectives	Complementary Objectives	List the Next Step(s)
Objective 1			
Objective 2			
Objective 3			

Activity 4: Reflections

[1] My Top 3 Takeaways from this Factsheet are:

- 1.
- 2.
- 3.

[2] Three concepts/ideas I would like more information on are:

- 1.
- 2.
- 3.