

Question No: 37

Question: Lending Capacity of Territory Insurance Office

Date: 13/08/91

Member: Mr COLLINS

To: MINISTER for LANDS and HOUSING

1. Does the Territory Insurance Office have the power to create credit similar to banks.
2. On what basis does the Territory Insurance Office determine how much of its funds can be loaned out.
3. Should there be a major natural disaster in the Northern Territory which results in many claims being made against the Territory Insurance Office, how could the TIO effectively retrieve loan funds to meet its liabilities.

ANSWER

1. Under the Territory Insurance Act the term 'financial service' means the acceptance of deposits and the making of loans and investments and all related matters. Under section 5(da) the Territory Insurance Office may provide such financial services as are approved by the minister and, in particular, mortgage, personal and other loans on terms and conditions approved by the board.

The creation of credit is a term used in economics to describe a process whereby lending by financial institutions gives rise to more spending and more deposits with financial institutions. These extra deposits in turn allow more lending and so the process goes on with deposits growing larger at each round of the cycle. Since deposits with financial institutions form an important part of the total money supply, it can be said that lending by financial institutions gives rise to an increase in the amount of money or credit.

The TIO is in the same position as other financial institutions in this regard. Lending by its financial services arm, TIP finance, helps to increase economic activity which in turn leads to more deposits with financial institutions.

However, the ability to lend is limited for all financial institutions by their deposit base and the need to maintain liquid assets.

2. The basis by which the TIO determines the amount of funds to be loaned out is determined by:

- (a) clients' funds on deposit; and
- (b) need to maintain a margin for liquidity.

At present TIO finance has total deposits in excess of \$40m. Of this \$19.8m is in liquid form. That is a liquidity ration of 40.5% which is very high by bank standards.

3. Like all insurers the TIO has treaty arrangements in place which will result in by far the major portion of the claims arising from a cyclone being met by the reinsurers. The treaties provide for cash calls in the event of a natural disaster. In addition, the TIO manages its total portfolio so as to maintain a significant proportion of funds in

liquid form or readily convertible to cash eg bank bills and government bonds.

TIO insists that its loan clients must have current and up-to-date insurance cover.
Thus the likelihood of having to 'call up' loans is remote.