

APPENDIX 1.1: TERMS OF REFERENCE

The Government requested that the Technical Study should address the following issues, drawing upon relevant international experiences:

- (a) the economic rationales for and against explicit guarantees over certain retail financial products including the implications of explicit guarantees for financial stability and private incentives for monitoring the financial health of financial institutions;
- (b) the implications of introducing a limited explicit guarantee for the general design of the Australian prudential framework and any existing compensation mechanisms (for example, state-based arrangements);
- (c) the consequences of a financial institution's failure (which may vary by the sector or sectors in which it operates and the kinds of products that it offers) and the current level of consumer protection provided by the Australian prudential framework;
- (d) the merits of possible guarantee design variables (whether or not a scheme appears warranted) including general and sectoral applications, private underwriting, product application, capping, benefit limits and co-insurance arrangements;
- (e) the potential cost of a guarantee and the impact of key design variables on the cost;
- (f) funding arrangements, exploring pre-and post-funding, public funding, industry funding, consumer funding, and co-funding models (and the possibility of purchasing financial reinsurance cover for any guarantee);
- (g) governance and accountability arrangements, including the relationships between the various functions (for example, claims assessment, investment management, prudential regulation) and other arms of government; and
- (h) other matters considered relevant.

