



ARPC MARKET UPDATE

19 SEPTEMBER 2014 (*Updated 23 SEPTEMBER 2014*)

Background

In our May 2014 Market Update, we highlighted that the *Terrorism Insurance Act 2003* (TI Act) requires a review to be conducted at least once every three years that examines the need for the Act to continue in operation (the triennial review). This update provides our stakeholders information on the triennial review which is now underway.

Triennial review

As in previous years, The Treasury is responsible for undertaking the review and preparing a report to the Minister which is the Assistant Treasurer. The review will consider whether there is a need for the Act to continue in operation (which is a requirement of the TI Act), ownership options for ARPC, design of the scheme and evaluating gaps in coverage of the scheme. *The full terms of reference are now included on page two of this Market Update.*

The Treasury has engaged an expert external consultant, Pottinger (www.pottinger.com), to assist them in undertaking the triennial review. Pottinger are a strategy and transactions advisory firm with experience advising The Treasury as well as insurance sector and financial services companies. ARPC is supporting both Treasury and Pottinger with the review process.

Reports for the three previous triennial reviews are available on ARPC's website: <http://arpc.gov.au/about-arpc/review-of-the-act/>

Contacts for triennial review

Further information about the triennial review is available through either The Treasury or ARPC. Key contacts for enquiries are:

The Treasury, Jerome Davidson, Manager Insurance and Superannuation Unit, P: +61 2 6263 3968,
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ARPC, Dr Christopher Wallace, Chief Executive Officer, P: + 61 2 6279 2100,
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Increase in alert level to high

Based on advice from security and intelligence agencies, the Australian Government has raised the National Terrorism Public Alert level from medium to high on 12 September 2014. Further information on Australian National Security and the alert level can be found at the National Security website:

<http://www.nationalsecurity.gov.au/Securityandyourcommunity/Pages/NationalTerrorismPublicAlertSystem.aspx>

For more information on ARPC please visit www.arpc.gov.au. For any enquiries about this Market Update, please contact Dr Christopher Wallace, Chief Executive Officer.

Terms of Reference – 2015 Review of the *Terrorism Insurance Act 2003*

The *Terrorism Insurance Act 2003* (the Act) established a scheme for replacement terrorism insurance coverage for commercial property and associated business interruption. The Act also established the Australian Reinsurance Pool Corporation (ARPC) as a statutory authority to administer the scheme. Both the scheme and the ARPC began operations on 1 July 2003.

The scheme was established as an interim measure to address a specific market failure in the private provision of terrorism insurance. The scheme is intended to operate only while terrorism cover is unavailable commercially on reasonable terms. As a result, s. 41 of the Act requires that: “At least once every three years after the startup time, the Minister must prepare a report that reviews the need for this Act to continue in operation.”

Previous reviews were completed in 2006, 2009 and 2012. Each review concluded that the Act should continue in operation, subject to further review in no more than three years.

Treasury will report to the Minister by 23 January 2015 on:

- whether there continues to be market failure in the private sector supply of terrorism insurance, and consequently whether there is a need for the Act to continue in operation;
- options on the future of the Act, including if there are possible alternative modes of ownership of the ARPC available to the Government and the costs and benefits of each alternative;
- whether the pricing of the scheme (the premium rates and tier structure); the level and structure of insurer and industry retentions; and the purchase of retrocession cover (including its level and cost) continue to be appropriate, and do not distort demand for insurance;
- whether the operation of the scheme should be extended to include mixed commercial and residential use buildings, and high-rise residential buildings; and
- whether refinements to the scheme are necessary to clarify coverage for biochemical attacks, having regard to the effect of insurance policy exclusion clauses such as Chemical, Biological, and Pollution exclusions.

In conducting the review, Treasury will incorporate input from an expert external consultant. The consultant shall be instructed to provide a written report to Treasury.

In conducting the review, Treasury will seek submissions from and, where appropriate, consult further with, key stakeholders including: private sector insurers, reinsurers and brokers; peak bodies representing the general insurance, banking, broking and property industries; State and Territory governments; and other Australian Government agencies, including the ARPC.