Australian Government
Australian Reinsurance Pool Corporation

Frequently Asked Questions

We have developed this resource to act as a Q&A to ensure general information is available via our website.

General FAQs

Premiums

Can I use a post office box address to determine the applicable tier rate?

No. ARPC reinsurance premiums are calculated based on the physical location of the risk, not the post office box address.

The postcode assigned to the street address of the insured property must be ascertained in order to determine the appropriate tier and accurately calculate the reinsurance premium. Postcodes assigned to post office box locations are not to be used.

How are railway tracks and pipelines applied to the tier rates?

Railways and pipelines can traverse many areas and it is difficult to accurately determine the gross base premium applicable to the various ARPC tiers. We recommend that insurers use the risk’s structures such as railway stations, signal boxes or pipeline refinery and booster facilities to determine the tier location and calculate the premium according to those tiers. We do not expect insurers to trace every kilometre of track or pipeline.

Note that the reinsurance premium is applicable to the whole of the eligible premium, including that of pipelines, tracks and structures.

What do I do when a postcode straddles State boundaries?

ARPC's quarterly account template requires a split of premium into tier and State. Consequently, it is important to ensure that the actual risk location is used when recording data on your accounting system. Relatively few postcodes straddle State boundaries. However, special care should be taken when these postcodes are used to ensure the risk location is recorded in the correct State. Insurers are to use only the boundaries specified by Australia Post.

How do I account for annual construction policies?

The ARPC tier rates are to be applied to the insured's estimate of contracts which will be commenced during the annual construction policy period. We do not require clients to adjust the initial reinsurance premium upon receipt of the 12 month declaration.

Insurers should calculate the applicable reinsurance premium based on estimates of the total contract values in each of the three tiers. ARPC will accept reinsurance premium calculated on the location(s) where the maximum value of the work is intended to be commenced during the 12-month policy period.

The insured's estimate of contract values may also be used as the basis for figures submitted in the contract works section of the annual aggregate report.

Should insurers show their terrorism insurance premium as a separate item on policy documents?

Insurers have the option to show terrorism premium as a separate item because the amount paid by the policyholder to the insurer is decided by the insurer, not ARPC. However, the amount paid by the insurer to ARPC is to be calculated by multiplying the appropriate tier rate to the gross base premium processed by the insurer each quarter.

Are ARPC tier rates applicable to every layer of an excess of loss policy even where some higher layers have no exposure to Australian based risks?

Terrorism reinsurance premium is payable on all excess of loss premium that provides cover for eligible property. If there are no eligible risks with values that reach the layer on which the insurer participates, no eligible premium would be payable to ARPC. However, if the sum insured of eligible risks does reach the subject excess of loss layer, reinsurance premium would be payable to ARPC by applying tier rates to the gross base premium for that layer.

How should I calculate the reinsurance premium due to ARPC?

The premium due to ARPC is calculated as a percentage of a cedant's gross base premium. However, if an insurer customer does not "gross up" the base premium by the relevant percentage, the insurer will be left with a lower amount after remitting the reinsurance premium to ARPC.

The following example illustrates this point using the current **Tier A** rates:

Not Grossed Up

Risk Premium required by the insurer	$10,000
Plus 16%	$1,600
Gross Base Premium	$11,600
Less Reinsurance Premium (16% of gross base premium)	$1,856
Balance (remaining for insurer customer)	$9,744

Grossed Up

Risk Premium required by the insurer	$10,000
Gross up factor (1/(1-16%)	x 1.190476
Gross Base Premium	$11,904.76
Less Reinsurance Premium (16% of gross base premium)	$1,904.76
Balance (remaining for insurer customer)	$10,000

Grossed Up with 15% Commission

Risk Premium required, including 15% commission	$10,000
Grossed up factor (1-15%) / 1 – (16% + 15%))	x 1.231884
Gross Base Premium	$12,318.84
Less Reinsurance Premium (16% of gross base premium)	$1,971.01
Less Brokerage/Commission (15% of gross base premium)	$1847.83
Balance (remaining for insurer customer)	$8,500

The formula for “grossing up” the tier rates is:

Without commission = Gross base premium ($) x 1 / (1 – tier %)

With commission = Gross base premium ($) x (1 – commission %) / (1 – (tier % + commission %))

Section 9 of the Reinsurance Agreement for Terrorism Risks provides that the gross base premium excludes the Fire Service Levy, GST and Stamp Duty.

Please click here to access Excel calculators which may help with your calculations.

Eligible Insurance Contracts

Does ARPC cover “rolling stock”?

Rolling stock is excluded from the scheme under Item 26 of Schedule 1 of the *Terrorism Insurance Regulations 2003* (Cth). Trains, trams, or other railway vehicles may be covered in the course of manufacture, however as soon as the vehicle is operated or used on a railway it is considered “rolling stock” and is excluded from the scheme. Further details are available in our guidance note here.

How does a global terrorism policy affect eligibility?

The existence of an overarching global terrorism policy does not affect the eligibility of a separate contract of insurance issued by another insurer, such as a local insurer. If the policyholder has purchased eligible insurance even thought they have a global policy that provides full cover for terrorism, the insurer that issued the eligible policy will still be required to pay ARPC the appropriate reinsurance premium if they have a treaty Agreement with ARPC. It is most likely that the terrorism reinsurance cost will be passed on to the policyholder.

Are Biological, Chemical, Pollution or Contamination Exclusions considered to be Terrorism Exclusions for the purposes of the TI Act?

Yes. An exclusion or exception (however described) for:

a) acts that are described using the word “terrorism” or “terrorist” or words of similar effect; or
b) other acts (however described) that are substantially similar to terrorist acts as defined in section 100.1 of the Criminal Code; or
c) acts that are described using the word “chemical”, “biological”, “polluting”, “contaminating”, “pathogenic” or “poisoning” or words of similar effect

…is considered to be a terrorism exclusion clause for the purposes of the TI Act and will be **ineffective in the event of a Declared Terrorism Incident**. Therefore, acts of terrorism involving biological or chemical material are covered by the scheme.

Does a terrorism sub-limit render a policy ineligible?

No. A sub-limit does not render a policy ineligible. Sub-limits fall under the definition of an ‘exclusion or exception (however described)’ within the meaning of s 8(2) of the TI Act. As such, a sub-limit for terrorism cover in an ‘eligible insurance contract’ will have no effect in relation to a loss or liability to the extent to which the loss or liability is an eligible terrorism loss under the TI Act.

Full terrorism reinsurance premium is payable to ARPC by insurers who have a Reinsurance Agreement with ARPC and issue policies that sub-limit cover for terrorism losses.

Are forklift trucks or other mobile equipment excluded from the Act?

Schedule 1, Item 18(a) of the Terrorism Insurance Regulations 2003 refers to the types of contracts of insurance which are not eligible insurance contracts for the purposes of the Terrorism Insurance Act 2003.

Item 18 (a) excludes a contract of insurance for a motor vehicle (other than movable machinery or equipment, used in mining or construction activities, that would not ordinarily be registered to travel by road).

Consequently, the eligibility of contracts of insurance covering forklifts and other movable machinery or equipment will depend on whether or not the assets are ‘movable machinery or equipment, used in the mining or construction activities, that would not ordinarily be registered to travel by road.’

Does the scheme cover medical indemnity insurance?

No. The TI Act provides terrorism cover for eligible property by making terrorism exclusion clauses ineffective in the event of a Declared Terrorism Incident. Item 3 of Section 1 of the TI Act defines eligible property as:
property that is located in Australia:

a) buildings (including fixtures) or other structures or works on, in or under land;
b) tangible property that is located in, or on, property to which paragraph a) applies;
c) any other property described by the regulations.
Note: Roads, tunnels, dams and pipelines are examples of eligible property.

Section 1 of the Regulations lists exclusions to the scheme and Item 13 excludes a contract of professional indemnity insurance. On this basis, the scheme does not cover medical indemnity insurance.

To what extent is an insurance contract which provides cover to a “public/private partnership” that covers both the government and consortium an eligible insurance contract?

By reason of the Terrorism Insurance Act 2003 and the Regulations made under that Act, a contract of insurance is not an eligible insurance contract to the extent it provides cover to the Crown in the right of a state of territory. Consequently, an insurance contract which provides cover to the Crown, a minister or a department and a private sector entity is not an eligible contract (if it otherwise meets the definition in section 7 of the Act) to the extent it provides cover to the private sector entity.

In an events cancellation policy does an insured have to actually occupy eligible property in order for the contract of insurance to be considered eligible?

Yes. For an events cancellation policy to be an eligible insurance contract under s 7(1)(b)(ii) of the Act, the policy must cover business interruption and consequential loss arising from the inability to use eligible property that is occupied by the insured. The ordinary meaning conveyed by the phrase “eligible property… that is… occupied by the insured” clearly refers to an insured that is in actual possession of the eligible property. The phrase “is not occupied” refers to the present tense (in actual possession) not future tense (will be occupied).

Reinsurance Agreement

Is it compulsory for insurers to reinsure terrorism risk through ARPC?

No. It is not compulsory for insurers to reinsure the risk of eligible terrorism losses through ARPC. However, the TI Act compels all insurers to provide full terrorism cover on eligible policies. Local and foreign insurers have the option to:

- purchase terrorism reinsurance from ARPC;
- purchase terrorism reinsurance from a commercial reinsurer; or
- elect to hold the exposure themselves.

Of course, ARPC offers terrorism reinsurance for all eligible insurance contracts and this can be easily arranged by contacting ARPC at enquiries@arpc.gov.au.

Reporting

Do I have to declare all risk locations even if they are in the same postcode?

Yes. This assists with aggregate reporting and, in the event of a Declared Terrorist Incident (DTI), will assist us in claims reporting and auditing.

What elements must be included in the Street Address Detail Aggregate Report, which is due by August 31 each year?

This report requires street address level data for risks located in postcodes 2000, 3000, 4000, 5000, and 6000. As the purpose of this information is to allow accurate exposure modelling in these high-risk areas, the location details are very important (full street address at a minimum, with GNAF or Lat/Long preferred). This level of detail must be provided for all eligible building, contents, and business interruption risks within these postcodes regardless of risk size or policy type (stand-alone contents or business interruption policies should be included).

Retentions

Does the retention figure apply to each and every loss during a retention period or is it an aggregate deductible?

The retention figure noted in ARPC's treaty Agreement is an annual aggregate retention to be applied during the same retention period.

In cases where a parent insurance company has subsidiary insurance companies can ARPC set one retention for the group?

No. The Treasurer to Australian Reinsurance Pool Corporation's (Risk Retention) Direction (available here) requires ARPC to apply a separate retention to each individual entity which reinsures with ARPC. The Explanatory Memorandum to the Terrorism Insurance Bill 2003 reinforces that it was the Government's intention that a separate retention be applied to each individual entity which reinsures with ARPC. Item 1.1 of the Revised Explanatory Memorandum states that the retention will be set "per insurer" and item 3.38 describes the retention for "each insurer that reinsures with the ARPC".