



## Frequently Asked Questions

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

## Scheme changes

Under changes recommended by the 2015 Triennial review of the Terrorism Insurance Scheme, the definition of eligible property has been extended to include buildings that have a floor space of at least 20% used for commercial purposes or that have a building sum insured (BSI) of at least \$50 million, whether used for commercial or other purposes. This change was introduced for all eligible policies issued or renewed on or after 1 July 2017.

Legislation has also been amended to clarify that losses attributable to terrorist attacks using chemical or biological means are covered by the scheme. This change came into effect for all policies in force or renewed from 1 July 2017.

ARPC has received several questions from cedants on these changes and we have listed the main questions with our responses for your information:

### Q&A on ARPC Scheme changes

**Are contracts of insurance covering a residential building with a building sum insured (BSI) of at least \$50m or mixed use buildings with between 20% and 50% commercial floor space 'eligible' if they are issued or renewed before 1 July 2017?**

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No. Those buildings would only become eligible once they are issued or renewed from 1 July 2017. However, mixed use buildings with at least 50% commercial floor space are already deemed eligible under the scheme as they are considered to be commercial due to the overall character of the premises.



## **Is the \$50m sum insured eligibility condition based on the building sum insured, contents sum insured and/or business interruption sum insured?**

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The \$50m figure refers to the 'building value' only. Contents and/or business interruption cover are not taken into account when determining the building value.

## **Is the BSI based on the strata definition of building sum insured or on the total sum insured exposure of the property section?**

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Our initial recommendation is that the \$50m trigger is to be applied to the pure strata building sum insured shown on the policy without loadings such as catastrophe extensions or loss of rent. ARPC has undertaken additional market consultation and legal advice which will form the basis of a more detailed guidance note on this topic.

## **Can mid-term endorsements on policies covering residential BSI insured of at least \$50 million or a commercial floor space of between 20% and 50%, make a policy 'eligible' if the policy was issued or renewed before 1 July 2017?**

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No. Issuing an endorsement mid-term is not sufficient to create eligibility under the scheme.

## **What happens if a residential BSI drops below \$50 million during the policy period which results in a partial return premium to the policyholder?**

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The scheme does not cover residential buildings with a sum insured of less than \$50 million so the policy will become ineligible from the date the building value falls below \$50 million and the insurer could request a return premium from ARPC on a pro-rata basis.

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**Can a policy issued or renewed after 1 July 2017 become eligible under the TIA if the BSI increases during the policy period from less than \$50m to at least \$50m due to the application of indexation clauses or re-valuation?**

Yes. If the BSI legitimately increases to more than \$50m during the year (due to the application of indexation clauses within the policy, for example) but this was not 'obvious or apparent' at the time the policy was issued or during the policy period, the cedant could seek cover from ARPC under clause 2(b) of the treaty Agreement. The insurer customer would have to pay ARPC the appropriate terrorism reinsurance premium due on that policy, on a time-on-risk basis for that year, before any reinsurance claims are paid.

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**Does the clarification that the scheme covers losses attributable to terrorist attacks using chemical or biological means, apply to all policies in force from 1 July 2017?**

Yes. Coverage for terrorist attacks involving biological or chemical means has been extended to all 'eligible policies' that are in force or renewed from 1 July 2017.