



THE HONOURABLE CHRIS PEARCE MP

Parliamentary Secretary to the Treasurer
Federal Member for Aston

Mr J I Gersh AM
Chairman
Australian Reinsurance Pool Corporation
GPO Box 3024
CANBERRA ACT 2601

- 3 MAY 2007

Dear Mr Gersh

I am pleased to provide you with the Australian Government's Statement of Expectations for the Australian Reinsurance Pool Corporation. This Statement forms part of the implementation of the Government's response to the *Review of Corporate Governance of Statutory Authorities and Office Holders*, which was conducted by Mr John Uhrig AC (the Uhrig Report). The Uhrig Report identified ways in which the governance of Commonwealth portfolio bodies may be improved and recommended options for increasing transparency and accountability and ensuring well-defined responsibilities and clear relationships between portfolio bodies and other arms of Government.

The Government is issuing a Statement of Expectations to portfolio bodies and requesting that portfolio bodies respond with a Statement of Intent. The Government looks forward to receiving the ARPC's Statement of Intent within three months of the date of this letter. In the interest of public accountability, both of these documents will be made public. This Statement will be reviewed as circumstances require.

This Statement of Expectations outlines the Government's current expectations with regard to the role and responsibilities of the ARPC, the ARPC's relationships with the Government, issues of transparency and accountability, and operational issues.

At the outset, I would like to make it clear that the Government is very pleased with the overall performance of the ARPC as the administrator of the terrorism insurance scheme. The *Review of the Terrorism Insurance Act: 2006* conducted by the Treasury found the ARPC to be efficient and prudent.

The role and responsibilities of the ARPC

The Government established a scheme through the *Terrorism Insurance Act 2003* (the Act) to provide terrorism insurance coverage for commercial property and associated business interruption and public liability cover. The scheme, which commenced on 1 July 2003, was developed following the progressive withdrawal of commercial terrorism insurance cover in the aftermath of the terrorist attacks in the United States of America on 11 September 2001.

If the Minister declares a terrorist incident, the Act overrides terrorism exclusion clauses in eligible insurance contracts and insurers are then required to cover eligible terrorism losses. The Government established the ARPC to provide reinsurance cover for this risk. Insurance companies are able, although not compelled, to reinsure this risk with the ARPC. Consistent with industry practice, the ARPC charges insurers premiums for this reinsurance; premiums are set by ministerial determination.

In addition to this primary role of providing terrorism reinsurance, the ARPC should seek to be in a position to advise the responsible Treasury minister of likely costs to the ARPC in the event of a declared terrorist incident. To this end, the ARPC should model different scenarios to estimate the potential exposure if a terrorist incident occurs.

The Act, and the scheme it establishes, is intended to be in place in the short term, until sufficient terrorism insurance is available on reasonable terms. In keeping with this objective, the ARPC should also seek to keep abreast of key international developments including other government-run schemes and the affordability and availability of commercial terrorism insurance. The ARPC should inform Treasury and the Government of any key developments.

Relationships of the Board

Relationship with the Minister

I expect that the ARPC will keep the Government fully informed of its activities, and will alert the Government of any significant events related to the ARPC's core business in a timely manner.

Accurate and timely advice to the responsible Treasury minister is essential to ensure the Government is best placed to respond promptly to matters that might arise.

Relationship with the Treasury

The role of the Treasury is to support and advise me and other Treasury ministers in our responsibilities by being the principal source of advice on a wide range of issues, including policy development and the review of results. The ARPC is primarily responsible for the administration of the terrorism insurance scheme.

To fulfil these respective roles in the area of terrorism insurance, the Treasury and the ARPC should maintain a close working relationship. The Treasury takes into account the views and experience of the ARPC when considering and advising on changes to terrorism insurance policy and legislation. By advising the Treasury on the operational implications of Government policy initiatives, the ARPC contributes to policy development. It is also imperative that the ARPC continues to consult with the Treasury in the development of substantive operational policies to facilitate consistency between the objectives of legislation and its practical implementation.

The Government accepted the Uhrig Report recommendation that portfolio bodies should provide information to portfolio secretaries in parallel to that information being provided to ministers. The ARPC should keep the Secretary to the Treasury appropriately informed of significant high-level meetings between the ARPC and Government ministers and other key policy figures. This should ensure that the Treasury continues to be placed in a good position to fulfil its role as the principal source of advice on terrorism insurance policy matters to the Government. The Chair of the ARPC, together with the other members of the Board, remains responsible for the direct oversight of the ARPC.

Relationship with clients

The ARPC interacts directly with its clients, that is, those insurers that reinsure their terrorism risk with the ARPC.

It is important for insurers to be aware of their exposure under the Act. The ARPC should seek to continue to educate all insurers covered by the Act, both in Australia and overseas, about its objectives and its implications.

Transparency and accountability

The ARPC was established as an independent body to administer the terrorism insurance scheme. However, the ARPC performs its statutory functions as part of the Australian Government and remains accountable to the Parliament, and ultimately to the public, through the Treasury ministers, the Parliamentary Committee process and the tabling of its annual report. Open consultation and a sound working relationship with its clients should help to ensure that the ARPC interacts with market participants and the community more generally in a transparent and accountable manner.

In keeping with corporate governance best practice, the Board should conduct annual self-assessments. Evaluation helps boards do their job more effectively. The Board's self-assessment should look at the performance of the Board as a whole as well as focusing on the performance of individual members. The Uhrig Report noted that having an independent person, who is appropriately qualified, examine and report on the assessment is the most effective mechanism of providing accurate feedback. I recommend this approach to you but I understand that there are costs involved and it may not be the most appropriate approach for the ARPC every year.

The Chair will meet with the responsible Treasury minister at least annually and discuss the performance of the Board. The Chair should be in a position to discuss the outcome of the annual performance evaluation of the Board and the performance of specific directors.

Operational issues

I expect that the ARPC will maintain the highest standards of corporate governance, and implement policies and strategies to ensure that the ARPC's officers adhere to the ARPC's code of conduct at all times.

The requirements for the ARPC's financial management are set out in the relevant legislative requirements and the Finance Minister's Orders. In this regard, I note that it is the intention of the Government that the ARPC remain an agency prescribed under the *Commonwealth Authorities and Companies Act 1997*.

It is Government policy that all departments and portfolio bodies should continue efforts to secure improved efficiency in their operations and demonstrate value for money for the services that they deliver. I appreciate that the ARPC continues to seek opportunities to achieve outcomes in a more cost-effective manner.

The review of the Act

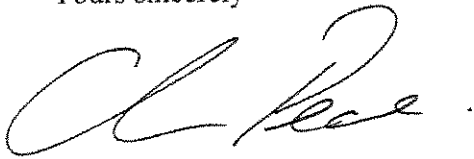
The Act stipulates a review must occur at least once every three years after the scheme commences. The Treasurer must prepare a report that reviews the need for the Act to continue in operation. The ARPC is expected to contribute to the review process, providing information, advice and expertise.

Conclusion

The Government's vision is that ARPC remains a high performing and responsive advisory body that continues to be the administrator of the terrorism insurance scheme. I look forward to working with the ARPC under the new governance arrangements.

I have copied this correspondence to the Treasurer, the Prime Minister and the Minister for Finance and Administration.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Pearce', with a stylized flourish at the end.

CHRIS PEARCE
