Australian Government
Australian Reinsurance Pool Corporation

ARPC MARKET UPDATE
15 December 2015

Background
In September 2014, The Treasury commenced the latest Triennial Review, a regular process required under the *Terrorism Insurance Act 2003 (TI Act)* to be undertaken at least every three years. The Treasury has now completed the Review after engagement with industry and other stakeholders and the findings and recommendations of the Review have now been released publicly.

Triennial Review
The Review considered matters of ownership, administration, fee retention, funding levels returned to government, premiums and scope and coverage of the scheme.

In summary, the Review finds that market failure still exists in the Australian terrorism reinsurance market and ARPC should remain in place under the current ownership structure and administration. The specific recommendations outlined in the Review are included in their entirety in **Appendix 1**.

ARPC Chief Executive Officer Dr Christopher Wallace has endorsed the recommendations from Treasury given that the direction outlined provides certainty and stability for the administration of terrorism risk insurance in Australia.

For ARPC insurance clients (and ultimately asset and property owners), the recommendations provide certainty on the scheme today whilst providing clear positive reform for the future.

A number of recommendations will impact current reinsurance policies and ARPC will be undertaking extensive stakeholder discussions to ensure implementation of these recommendations are well understood by the market.

Our staff are always available to discuss the changes. For any specific discussion on your situation, please contact ARPC CEO Dr Christopher Wallace or ARPC Chief Underwriting Officer Mike Pennell.

The final report can be viewed here

Contact details

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APPENDIX 1

Structure of the ARPC

Recommendation 1: That the Act remains in force, subject to future three-yearly statutory reviews.

Recommendation 2: That the current administration structure of the ARPC as set out in the Act be retained.

Retentions

Recommendation 3: The four per cent rate of gross fire and industrial special risk premium (less any fire services levy) should be increased to five per cent.

Recommendation 4: Current maximum retention levels for individual insurers should be removed.

Recommendation 5: The maximum industry retention should be increased from $100 million to $200 million.

Retrocession

Recommendation 6: That the ARPC continue to have the discretion to purchase retrocession, subject to the ARPC assessing the need for, and levels of, its retrocession programme and value for money.

Fee for the government guarantee

Recommendation 7: That the ARPC pay to the Commonwealth each year, commencing in 2016-17:
a) a fee of $55 million in respect of the Commonwealth guarantee of the ARPC's liabilities; and
b) an additional amount of $35 million per annum to reflect the Commonwealth's support in making the ARPC reserves available for payment of claims.

Premiums

Recommendation 8: That the premiums charged by the ARPC be increased, with effect from 1 April 2016 to:
– 16 per cent for Tier A,
– 5.3 per cent for Tier B, and
– 2.6 per cent for Tier C.

Scope of the scheme

Recommendation 9: That the scope of the scheme be extended so that it applies to:
a) buildings in which at least 20 per cent of floor space is used for commercial purposes; and
b) buildings with a sum-insured value of at least $50 million, whether used for commercial or other purposes.

Recommendation 10: That the application of the Act be clarified by amendments that remove doubt about whether certain losses would be covered under the scheme; in particular, losses attributable to terrorism attacks that use chemical or biological means.