



Message from the CEO

Welcome to the January edition of *Under the Cover*.

Some highlights from the quarter are:

Our inaugural Chair, Joe Gersh AM, retired from his role at December 31, after serving more than two terms. Joe has chaired ARPC from its start-up and has been an influential leader. We wish Joe well in the future.

We have placed a retrocession program this year which provides aggregate cover of circa \$3 billion above an ARPC deductible, a significant increase on the prior year.

In December 2012 ARPC co-sponsored the Second International Conference on Terrorism Risk in Paris. We also presented a paper on terrorism modelling which was well received. ARPC is the only organisation with the capability to model Chem-Bio and bomb blast at a three dimensional level, with loss output produced building by building.

You may have noticed some subtle changes to our web site. Prior to Christmas ARPC's web site was upgraded to be WCAG 2.0 AA compliant. In simple terms this means it is very user friendly, especially for the visually impaired. We are delighted with the new web site which was developed by Treasury IT.

We welcomed Alison Kelly to the role of Manager Corporate Governance in December, replacing Marianne Cavanagh who retired earlier in 2012. Alison comes to us from the Department of Human Services.

I hope you enjoy reading this edition.

David Matcham
CEO

In this issue

- *Renewal of ARPC's retrocession program*
- *RISe login change*
- *Highlights from the annual report*
- *Changes to the annual aggregate report*
- *Second quarter premiums*
- *A moment with Shannon*

Contact Details

Canberra Office

Level 3, 14 Childers Street,
Canberra ACT 2600
GPO Box 3024, Canberra ACT 2601
Phone: +61 2 6279 2100
Fax: +61 2 6279 2111

Sydney Office

Level 23, 56 Pitt Street,
Sydney NSW 2000
PO Box R1798,
Royal Exchange NSW 1225
Phone: + 61 2 8223 6777
Fax: +61 2 9241 1887

Email: enquiries@arpc.gov.au
Website: www.arpc.gov.au

IMPORTANT NOTICE AND DISCLAIMER

This newsletter is published for general information only and should not be taken as constituting advice. Whilst the Australia Reinsurance Pool Corporation (ARPC) aims to keep the content of this newsletter accurate and current, it provides no warranties or representations as to the quality, accuracy, completeness or reliability of the information in this newsletter. Please click [here](#) for more information on the disclaimer.

Copyright Notice

© Australian Reinsurance Pool Corporation 2013. Material in this newsletter is copyright. For terms of use please click [here](#).

Renewal of ARPC's retrocession program

ARPC first introduced its retrocession program in 2009. The amount of retrocession purchased in that first year was \$2.3 billion. The program has been renewed each year and each year the size of the program has increased.

The major benefits of the retrocession program are:

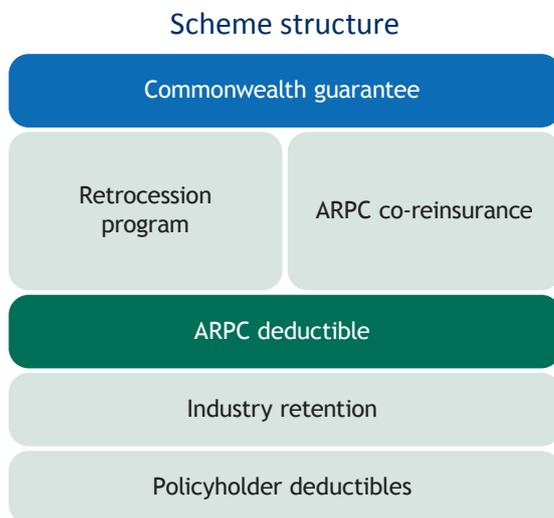
- The program encourages the return of the commercial terrorism insurance and reinsurance market for Australian risks.
- The overall capacity of the scheme is increased.
- The risk of terrorism losses being payable by the Commonwealth is minimised.
- The likelihood that a reduction percentage will be required is reduced.

In November the Chair, CEO and Client Service Manager, accompanied by representatives of Guy Carpenter, met with the major reinsurance markets in Australia and overseas during the renewal negotiations. Meetings were held with more than 50 retrocessionaires over a period of three weeks, which contributed to the success of the negotiation outcomes.

The capacity purchased for 2013 is now just under \$3 billion, giving a total scheme value of \$13.3 billion. This is a satisfactory result, considering the impact of the \$400 million dividend to be paid to the government over the next four years.

While capacity of retrocession has increased by \$200 million for 2013, the cost has only increased by \$5 million. Even the deductible is unchanged from 2012. This is mainly due to transparent underwriting information and world-leading modelling facilities developed by ARPC and shared with its retrocessionaires.

The following diagram shows the various layers of the scheme including ARPC's \$375 million commitment. All co-reinsurance layers will be met by the Commonwealth guarantee.



When placing retrocession, ARPC aims to maximise the capacity purchased from APRA regulated companies, followed by APRA approved companies, then companies from other regions. Priority is given to those reinsurers with the highest financial rating. The minimum rating required to participate in ARPC's retrocession program is A-.

RISe login change

Please note that there has been a minor change to the [ARPC website](#) impacting the RISe login. If you access the login via the ARPC website you will now notice that it is only available on the site homepage, rather than on every page.

Highlights from the annual report

The 2011-12 annual report was tabled in Parliament in October 2012.

Financial highlights reported for the year ended 30 June 2012 include:

- operating result of \$83.488 million
- gross written premium of \$124.709 million
- investment income of \$40.886 million
- retrocession expense of \$81.607 million
- retrocession program made \$2.76 billion

Other highlights in the annual report include:

- insourcing of cedant review program
- ARPC's performance management system was reviewed and updated
- ARPC continues to review and update its risk and controls

You can find the ARPC annual report 2011-12 on our [website](#).



Changes to the annual aggregate report

ARPC requires cedants to submit annual aggregate returns for exposures as at 30 June, by 31 August each year. Clause 10(b) of ARPC's Terrorism Reinsurance Agreement requires cedants to submit a report of total sums insured by reference to postcode in a form stipulated by ARPC.

ARPC would like to take the opportunity to give notice of two changes, which will be effective for aggregate returns provided as at 30 June 2014.

1. In addition to current reporting on all postcodes, street address information will be required for major postcodes within tier A locations, these being:
2000 in Sydney 5000 in Adelaide
3000 in Melbourne 6000 in Perth
4000 in Brisbane
2. Sums insured for business interruption and contents will be able to be submitted, whether or not there is a sum insured on a building for that postcode. Currently cedants can only report contents and business interruption sums insured if there is also a sum insured for a building in that postcode.

ARPC's report templates will be changed to facilitate this additional information. We appreciate these changes will require new reporting capabilities from our cedants, so we are aiming to provide the information as early as possible to allow an appropriate lead time.

While the requirements of the change are still to be finalised, to assist cedants in recording information from 1 July 2013, the following table shows a snap-shot of the likely format of the revised reports. The Sydney address in the table is an example of reporting contents and business interruption without a corresponding building exposure.

ARPC Street Address Report									
Name of Reinsured: ABC Ins. Co.							Date (as at)		
							30-Jun-14		
Name of Insured	Street Number	Street Name	Type (St, Rd, Ave)	Suburb	Post code	State	Building SI	Contents SI	Business Interruption SI
Eg 1: ACME	225	George	Street	Sydney	2000	NSW		\$ 1,257,000	\$ 500,000
Eg 2: EZ Corp. Ltd	75	Collins	Street	Melbourne	3000	VIC	\$ 189,000,000	\$ 2,450,000	\$ 730,000

We have previously stated an intention to move towards obtaining street address information regarding sums insured for all Tier A exposures. Our three dimensional loss estimation model relies heavily on the street address data we have previously received from certain large insurers every two to three years. The improved detail in the street address reports will enable more accurate loss estimation models to be built. This will benefit the insurance industry by reducing the likelihood of potential reduction percentage figures being announced during a declared terrorist incident and the industry uncertainty this causes.

The sum insured exposure information gathered by every postcode report within Australia plays an important role in our retrocession negotiations and in our modelling capabilities. This reporting requirement has also assisted the industry in general by improving the accuracy of exposure date for natural catastrophe reinsurance.

We greatly appreciate the information that has been provided by all cedants over the past nine years. Further updates on the reporting changes will be provided in future newsletters.

Should you have any questions, please contact Mike Pennell in our Sydney office on (+61) 2 8223 6777 michael.pennell@arpc.gov.au or Michael Stallworthy (+61) 2 8223 6777 michael.stallworthy@arpc.gov.au.

Our website also provides information on this initiative www.arpc.gov.au.

Second quarter premiums

The second quarter premium submissions are due by 31 January 2012. Please use RISE to submit your premiums. If you have any questions please contact Mike Pennell in our Sydney office on +61 2 8223 6777 or mike.pennell@arpc.gov.au

A moment with Shannon

Shannon joined ARPC's Canberra office as our Human Resource Administrator. She brings with her seven years experience in the HR field, covering a wide range of functions. Having come from a larger agency, Shannon is enjoying her role at ARPC and experiencing the workings of a smaller organisation.

Shannon teaches salsa dancing in her spare time, which she loves. Having grown up with dancing as major part of her life, she really enjoys passing on the passion to others. Shannon says it is most rewarding when teaching the beginners.

"I love taking a group of adults who are scared to breathe and look anywhere but at the floor — and then ten weeks later see them laughing, dancing and really enjoying themselves".

