

ARPC

**AUSTRALIAN REINSURANCE POOL CORPORATION
ANNUAL REPORT 2003-04**

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Australian Government

Australian Reinsurance Pool Corporation

21 September 2004

The Hon Peter Costello, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting to you the Annual Report of the Australian Reinsurance Pool Corporation for the year ended 30 June 2004. The report has been prepared under section 9 of the *Commonwealth Authorities and Companies Act 1997* and in accordance with the Finance Minister's Orders made under the Act.

Section 9(3) of the Act provides that the report is to be tabled in each House of the Parliament as soon as practicable.

Yours sincerely

A handwritten signature in black ink, appearing to be 'J I Gersh', written in a cursive style.

J I Gersh
Chair

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REPORT OF OPERATIONS

This report of operations of APRC comprises:

- (a) a report from the Chair;
- (b) a report from the Chief Executive;
- (c) Chapter 1: Overview;
- (d) Chapter 2: Report on performance;
- (e) Chapter 3: Management and accountability; and
- (f) Chapter 4: Other miscellaneous information.

The Members are responsible under section 9 of the *Commonwealth Authorities and Companies Act 1997* for the preparation and content of the report of operations in accordance with the Finance Minister's Orders.

Signed for and on behalf of Members in accordance with a resolution of the Members.



J I Gersh
Chair

21 September 2004



A J Lumsden
Member and Chair of the Audit and
Compliance Committee

21 September 2004

REPORT FROM THE CHAIR

It is with a great deal of pleasure and pride that I present the inaugural report of ARPC.

The *Terrorism Insurance Act 2003* was proclaimed on 24 June 2003 and the appointment of the inaugural Members was effective from 1 July 2003. Those Members were myself as Chair and Mr Murray Edwards, Mr Andrew Lumsden, Ms Marian Micalizzi and Mr James Murphy. The appointments of Mr Lumsden, Ms Micalizzi and myself are all for terms of three years from 1 July 2003.

During the year, one of the inaugural Members, Mr Murray Edwards, resigned to take up an opportunity with Treasury's Papua New Guinea program. Ms Lorraine Allan, a Senior Advisor with the Prudential Policy – Superannuation and Insurance Unit of Treasury was appointed in his stead. Ms Allan's appointment was effective on 5 February 2004.

Mr Weeks' appointment as Chief Executive was announced by the Treasurer on 11 June 2003 and the Members met on 1 July 2003 to confirm that appointment.

Mr Weeks has extensive experience in the insurance industry, having held senior roles in a number of commercial insurance organisations before joining the Territory Insurance Office of the Northern Territory as its Chief Executive Officer, a role which he held for 10 years before joining ARPC. I would like to express my appreciation to Mr Weeks for acting so expeditiously in the establishment of ARPC and for his efforts in ensuring that ARPC has maintained extremely high standards of professionalism since the first day of its existence.

ARPC moved into its premises in London Court, Canberra, on Wednesday 27 August 2003. The Treasurer officially opened the office on 7 October 2003 at a reception attended by Members, ARPC staff and representatives of the insurance industry and the finance and banking sectors. ARPC's Sydney office was established on 13 October 2003.

Substantial work has gone into ensuring that the scheme and ARPC are well known in the marketplace. This has involved a substantial speaking program by the Chief Executive and Client Service Manager at various forums including industry associations, radio, state and Commonwealth authorities and presentations to individual insurers. ARPC has also undertaken a widespread advertising campaign in industry journals both in Australia and overseas.

As a result, ARPC has substantial industry coverage with 187 reinsurance agreements in place as at 30 June 2004.

As at 30 June 2004, ARPC had recorded \$55.801 million in gross written premium and the reserve for claims stood at \$18.164 million.

I wish to thank my fellow Members and the Chief Executive for their assistance in ensuring that the scheme is well publicised and administered and that we have sound corporate governance structures in place. I look forward to working with the Members and staff of ARPC to ensure that we build on the work done to date in establishing the scheme, growing the pool and developing sound administrative and governance practices.

A handwritten signature in black ink, appearing to be 'J I Gersh', written in a cursive style.

J I Gersh
Chair
21 September 2004

REPORT FROM THE CHIEF EXECUTIVE

This is ARPC's first annual report and my first report as its Chief Executive. I am pleased to report that industry acceptance has been good and the establishment of ARPC proceeded smoothly. It is heartening to note that ARPC has experienced a co-operative attitude in relation to the need for terrorism insurance cover and the mechanism by which it is offered.

On 1 July 2003 the launch of ARPC's website (www.arpc.gov.au) was successfully completed. This site contains information on the operation of ARPC, including its enabling legislation and regulations, tier postcodes, claims procedure, frequently asked questions and contact details.

Marketing brochures were designed and printed and are used as standard handouts to clients and the public providing information on the scheme. The brochures include answers to frequently asked questions, contact details and a summary of the basis for the scheme.

A standard reinsurance agreement for insurers who wish to avail themselves of the reinsurance facilities provided by ARPC was negotiated with the Insurance Council of Australia (ICA). I thank the executive and member agencies of ICA for their co-operation in drafting the agreement and implementing the scheme.

The standard agreement has been modified to suit the particular circumstances of foreign insurers, dedicated insurance subsidiaries of corporate groups (**captives**) and Lloyds syndicates, but its content has remained consistent.

One of the major issues for ARPC is to ensure overseas companies writing business in Australia are aware of their responsibilities under the *Terrorism Insurance Act 2003*. To this end, ARPC has spent a significant amount of its formative time identifying captives and foreign insurers which write business in Australia.

Unfortunately, no database of foreign insurers writing business in Australia was available and an intensive publicity program has been required. In association with Treasury, ARPC instituted a mail out campaign to insurance companies and other organisations which could be affected by the legislation, both in Australia and overseas. This publicity campaign was augmented by an advertising schedule in overseas industry magazines and newspapers.

As getting the message out was critical in the early stages, I presented papers at ICA seminars in Melbourne, Perth, Sydney, Adelaide and Canberra and addressed the

Australian and New Zealand Institute of Insurance and Finance in both Darwin and Ballarat. I also spoke at ICA's annual conference in Canberra.

To ensure that our clients receive as much assistance as possible, Michael Pennell was appointed as Client Service Manager. Because a large majority of ARPC's clients are located in Sydney, the role of Client Service Manager is also based in Sydney.

Insurance companies invested considerable time and effort to adjust their information technology systems to cater for the three tier premium bands, issue renewal notices and report exposures and premium to ARPC. An unforeseen benefit is that more accurate risk information is expected to flow to insurance companies as a result of the scheme.

In conjunction with the Treasury and the Attorney-General's Department a protocol has been established for the declaration of a terrorist incident for the purposes of the scheme.

Our Singaporean clients made many requests for clarification on the application of the scheme and the reinsurance offered by ARPC. Consequently, a two day client visit was conducted in late May 2004. The visit was a success and clients benefited greatly from the direct personal contact with ARPC's Client Service Manager who explained the operation of the scheme and answered questions.

The following is a selection of the major issues which have arisen during the first year of ARPC's operation.

- (a) Definition of residential buildings. Insurers and brokers asked for clarification of the difference between a residential building and a commercial building, particularly where there is dual occupancy such as the East Circular Quay complex. In conjunction with ICA, a circular has been issued to all insurers explaining that the definition should be based on the ratio of residential to commercial floor area.
- (b) Some brokers suggested that they could remove commercial policies from the 'eligible' category by removing the terrorism exclusion and adding a very small terrorism sub-limit. After receiving advice, ARPC has responded with a statement on its website and brochure that the difference between the policy limit and any sub-limit is effectively an exclusion so those policies are still considered 'eligible'.
- (c) The London market asked if non-aircraft property covered under an aviation policy is covered and they supplied a sample wording for discussion. ARPC recommends that the insurers seek their own advice and view the policy as a whole to determine the character of the contract. An explanatory note has been issued to the London market and is posted on ARPC's website.

The past year has been an interesting and challenging one, both personally and for ARPC generally. I thank ARPC's Members and staff for their support during the year and look forward to working with them to build on the solid foundation ARPC has established in its first year of operation.

A handwritten signature in black ink, appearing to read 'N E Weeks', written in a cursive style.

N E Weeks
Chief Executive
21 September 2004

CHAPTER 1: OVERVIEW

ROLE AND FUNCTIONS

ARPC is a statutory authority established by the *Terrorism Insurance Act 2003* (TI Act). It began operations on 1 July 2003. The function of ARPC is to provide reinsurance cover for eligible terrorism losses (whether by entering into contracts or by other means).

ARPC has the power to do all things necessary or convenient to be done for or in connection with the performance of its functions, including:

- the power to charge premiums in respect of contracts of insurance for which it is the insurer; and
- the power to charge fees for services that it provides in connection with the performance of its functions.

The terrorism reinsurance scheme established by the TI Act is the Government's response to the withdrawal of terrorism insurance cover following terrorist attacks around the world, particularly the events of 11 September 2001 in the United States of America. The scheme was introduced as a result of calls from the community for the Government to intervene in an area of clear market failure and after discussions with key industry stakeholders – including insurance and reinsurance companies, banks, representatives of property owners, industry associations, insurance brokers and actuaries.

The TI Act renders terrorism exclusion clauses in eligible insurance contracts ineffective in relation to loss or liabilities arising from a declared terrorist incident affecting eligible property located in Australia.

The compulsory application of the TI Act to all eligible insurance contracts is essential to allow the accumulation of a credible pool of funds within a reasonable period. Universal terrorism insurance is also designed to avoid problems of undiversified risk (for example, insuring only high risk buildings) and uncertainty as to who will be eligible for compensation in the event of a declared terrorist incident.

The scheme covers insurance for loss of or damage to eligible property that is owned by the insured, insurance for business interruption arising from loss of or damage to or inability to use eligible property, and insurance for liability of the insured arising from ownership or occupation of eligible property.

The TI Act includes a definition of the term *terrorist act* at section 5. The TI Act requires the Minister, after consultation with the Attorney-General, to declare that an act is a terrorist incident for the purposes of the TI Act. Upon that declaration, the provisions of the TI Act in respect of eligible terrorism losses become effective.

Risk cover is for any declared terrorist incident, except events involving damage from nuclear causes.

Coverage is available for Commonwealth and state business enterprises as well as Commonwealth-owned airports leased commercially.

Farms benefit from cover for terrorism risk if they hold insurance against business interruption.

Private residential property is not included in the scheme.

The Regulations also exclude certain other types of insurance coverage, including: marine insurance, aviation insurance, motor vehicle insurance, life insurance, health insurance, private mortgage insurance, medical indemnity insurance, and professional indemnity insurance.

Insurance companies may reinsure the risk of claims for eligible terrorism losses through ARPC. Premium income will build up ARPC's first layer of funds (an expected pool of \$300 million) available to cover claims from declared terrorist incidents. The pool is supplemented by a bank line of credit of \$1 billion, underwritten by the Commonwealth, as well as a Commonwealth indemnity of \$9 billion, giving aggregate cover of up to \$10.3 billion when the pool is fully funded.

The exposure of ARPC is effectively capped at \$10 billion plus the amounts collected in premiums. This is done by way of the declaration by the Minister of a *reduction percentage* under section 6 of the TI Act.

Insurers who seek terrorism reinsurance through ARPC retain part of the risk of liability from a declared terrorist incident. Initially, the retention has been set at the lesser of \$1 million or 4 per cent of the gross fire/ISR premium revenue per insurer per annum. However, the retention is limited to \$10 million for all reinsureds in relation to a single declared terrorist incident.

The premium charged for reinsurance is determined by Ministerial direction. The premiums have been set having regard to the level of risk. The CBDs of the state capital cities have been declared Tier A, other urban areas have been declared Tier B and rural and regional areas have been declared Tier C. The tiers have been identified by postcode. Postcodes allocated to Tier A are those covering the CBD areas of Australian cities with a population of over 1 million, that is, Sydney, Melbourne, Brisbane, Perth and Adelaide. Postcodes allocated to Tier B are those covering the urban areas of all state capital cities and cities with a population of over 100,000, that is, Sydney, Melbourne, Brisbane, Perth, Adelaide, Gold Coast, Canberra, Newcastle, Central Coast of New South Wales, Wollongong, Hobart, Geelong, Sunshine Coast of

Queensland, Townsville and Darwin. Postcodes allocated to Tier C are those postcodes not allocated to either Tier A or B.

Any property not on the mainland of Australia or Tasmania, but within the coastal sea of Australia within the definition included in section 3 of the TI Act, is Tier C.

Reinsurance premiums are calculated as a percentage of the reinsured’s gross written premium in accordance with the following table. There is also provision to increase the percentage after a declared terrorist incident in order to rebuild the pool.

Premium structure for reinsurance

Class of insurance	Tier	Initial rate from 1 October 2003 %	Maximum rate (after an event) %
Commercial property	A	12	36
	B	4	12
	C	2	6
Business interruption	A	12	36
	B	4	12
	C	2	6
Public liability		Nil	2

ARPC operates on a commercial basis and premium and investment income is used to fund its operations and build the pool available to meet future claims. While the TI Act provides that the Minister may direct ARPC to pay dividends to the Commonwealth, no such payments have been required to date.

The Government’s objective is to operate the scheme only while terrorism insurance cover is unavailable commercially on reasonable terms. Review of the scheme and the global terrorism risk reinsurance market is required to be conducted every two or three years to assess the state of the market and the possible wind-up strategy for the scheme. The uncertainty in the market made it impossible to stipulate on establishment the details or timing of the wind-up of the scheme and the use of funds accumulated by the scheme. Components of the scheme, including pricing, classes of insurance required to provide terrorism risk cover and level of underwriting available, are not set in legislation. This inbuilt flexibility is designed to encourage the re-emergence of the commercial market.

ORGANISATIONAL STRUCTURE

The TI Act provides that the Members are the Chair and at least four, but not more than six, other Members. The Members are appointed by the Minister.

Members

Mr Joseph Gersh, Chair — appointed 1 July 2003



Mr Gersh was appointed to the position of part-time Chair for a period of three years commencing 1 July 2003. He has extensive experience in law and commerce, and was a senior partner with Arnold Block Leibler from 1982 until his retirement from that position in 1999. Mr Gersh is the Managing Director of Gersh Investment Partners Limited and currently has a range of directorships, including the Payments System Board of the Reserve Bank of Australia.

Ms Lorraine Allan — appointed 5 February 2004



Ms Allan is a Senior Adviser with the Prudential Policy — Superannuation and Insurance Unit of the Department of the Treasury. She is Australia's representative on the OECD task force on terrorism insurance and was involved in the design of the scheme and the drafting of the legislation.

Mr Murray Edwards — appointed 1 July 2003, resigned January 2004



Mr Edwards was the Manager, Market Access and Pricing Unit in the Department of the Treasury and was involved in the design of the scheme and the drafting of the legislation.

Mr Andrew Lumsden — appointed 1 July 2003



Mr Lumsden is a partner at Corrs Chambers Westgarth. He specialises in corporate and securities law and mergers and acquisitions. Mr Lumsden is an acknowledged expert in the field of corporate governance issues. From 1998 until 2001 he was Chief of Staff to the Minister for Financial Services & Regulation, the Hon Joe Hockey, MP. Prior to 1998 Mr Lumsden was a partner of Corrs Chambers Westgarth. Mr Lumsden is a member of the Takeovers Panel and a member of the Corporations Committee of both the Law Council of Australia and the Australian Institute of Company Directors. Mr Lumsden is also the Chair of the Audit and Compliance Committee.

Ms Marian Micalizzi — appointed 1 July 2003



Ms Micalizzi is a chartered accountant with over 20 years experience, a company director and a consultant in both the public and private sector. Ms Micalizzi is a former partner of PricewaterhouseCoopers (until 2000) having been admitted as a partner of the predecessor firm in 1986. Ms Micalizzi sits on a number of boards, including the Queensland Investment Corporation and the Queensland Treasury Corporation. She is a member of the Corporations and Markets Advisory Committee and the Takeovers Panel and is a councillor of the Australian Institute of Company Directors (Qld Division). Ms Micalizzi is also a member of the Audit and Compliance Committee.

Mr James Murphy — appointed 1 July 2003



Mr Murphy is the Executive Director, Markets Group in the Department of the Treasury. He has extensive experience with the Australian Government, including holding senior positions with the Department of Finance as head of Budget Policy, with the Department of the Treasury as Principal Adviser, Corporations Law and with the Attorney-General's Department as head of the Business Law Division. Mr Murphy is also a member of the Audit and Compliance Committee.

Chief Executive

The TI Act provides for the appointment by ARPC of a Chief Executive. The Chief Executive is responsible for the management of the affairs of ARPC subject to the directions of, and in accordance with policies determined by, ARPC.



Mr Neil Weeks has been ARPC's Chief Executive since the scheme was established on 1 July 2003. Mr Weeks has more than 30 years experience in the commercial insurance industry, having held senior positions both in Australia and overseas. He was the Chief Executive Officer of the Territory Insurance Office of the Northern Territory from 1993-2003. Mr Weeks has a degree in economics and a Master of Business Administration from Monash University and is a Fellow of CPA Australia, the Australian Institute of Company Directors and the Australian Institute of Management.

Other staff

ARPC may also employ those people it considers necessary for the performance of its functions and the exercise of its powers. As at 30 June 2004, ARPC had one part-time and six full-time employees (including the Chief Executive). Since 30 June 2004, ARPC has employed a full-time Chief Financial Officer who commenced duty on 5 July 2004. An organisational chart is attached at Appendix 1.

ARPC has an office in Canberra in which most employees are located. Two employees are located in the Sydney office.

CHAPTER 2: REPORT ON PERFORMANCE

PROGRAM

ARPC's main legislative function is to provide insurance for eligible terrorism losses. ARPC's mission is to ensure that terrorism reinsurance is available to all insurers who write insurance contracts over eligible property in Australia.

PERFORMANCE INFORMATION

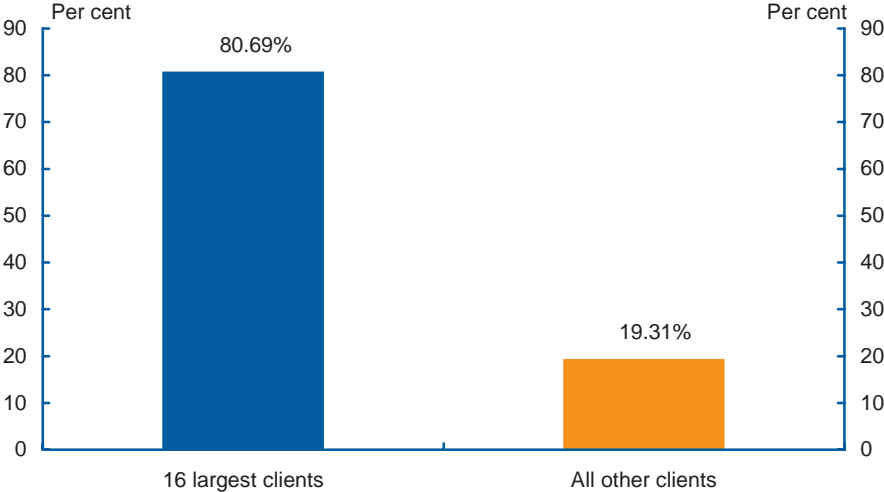
ARPC has conducted an extensive public awareness campaign to ensure that all insurers are aware of the scheme and their obligations under it and to offer reinsurance contracts to all those insurers who write eligible insurance contracts. The public awareness campaign included initiating and maintaining contact with industry bodies, delivering presentations and addresses to industry bodies and individual insurers and conducting an extensive advertising campaign both in Australia and overseas.

During the 2003-04 financial year, ARPC has achieved substantial market coverage. As at 30 June 2004, ARPC had written 187 reinsurance contracts. Of these, 126 clients (representing 67.4 per cent of the total client base) have remitted premium income to ARPC. Many companies have entered into a reinsurance agreement with ARPC even though, at this stage, they do not write eligible insurance contracts. This is sound risk management because the standard reinsurance contract provides an element of retrospectivity in its cover. If a company has a contract of reinsurance with ARPC and incurs a liability solely because of section 8 of the TI Act, it is entitled to cover under the reinsurance agreement provided it complies with the terms of the agreement and pays the relevant premium (whether or not it was obvious or apparent that the contract under which it incurs a liability was an eligible insurance contract under the TI Act).

Premium income

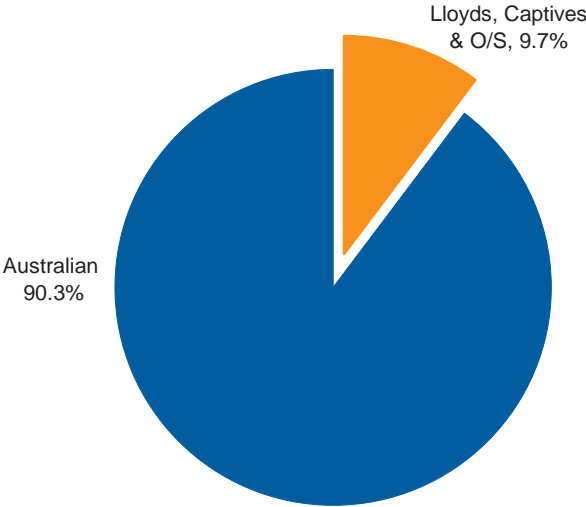
The top 16 companies account for 80.69 per cent of total premium income.

Chart 1: 16 largest clients by premium



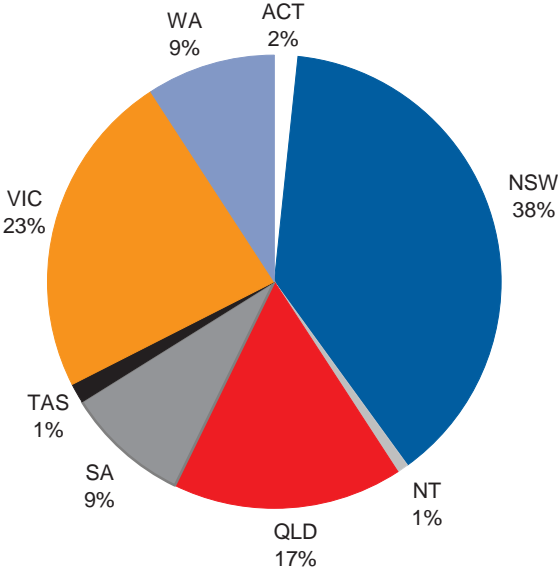
Captives, foreign insurers and Lloyds syndicates accounted for 9.7 per cent of the total premium received during 2003-04 with the great majority of income being received from Australian based insurers.

Chart 2: Booked premium — Australian and other clients



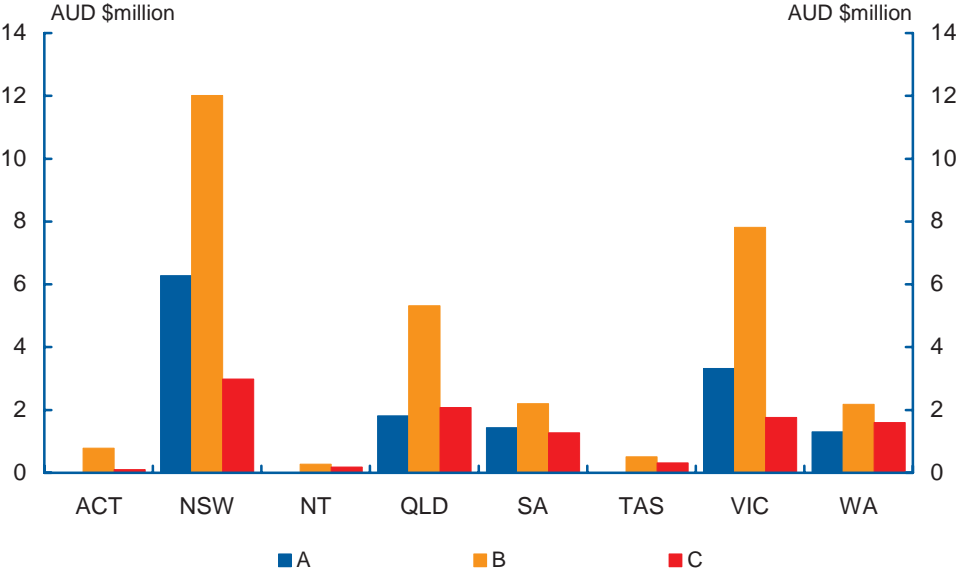
NSW accounted for 38 per cent of the total booked premium.

Chart 3: Premium per cent by state



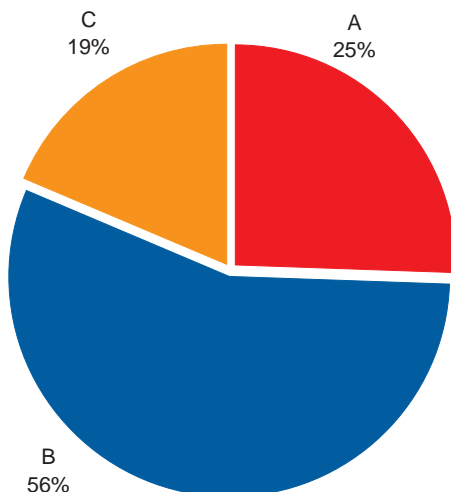
Within NSW the largest premium component (55.8 per cent) was represented by premium booked against tier B.

Chart 4: Booked premium by tier within state



Tier B was also the largest tier overall (56 per cent).

Chart 4: Premium booked by tier



ARPC has one reinsurance agreement with Lloyds UK which covers those nominated Lloyds underwriting syndicates writing eligible insurance contracts in Australia from time to time.

ARPC will continue to communicate its offer of reinsurance to the market by giving presentations to local forums such as the Insurance Council of Australia, Reinsurance Discussion Group, the Australian and New Zealand Insurance Institute and other forums it considers appropriate. Contact with foreign insurers and captives has been made by way of industry advertisements and presentations given to overseas markets and brokers.

The market will be kept informed of any changes to the scheme and ARPC will seek feedback from clients on the scheme and any improvements the market considers should be implemented.

ARPC expects that its client base will stabilise during 2004-05 at approximately 200 clients, being an even spread of local insurers, foreign insurers, captives and Lloyds syndicates.

ARPC continues to monitor schemes which operate overseas, such as the Pool Re scheme in the UK, the Terrorism Risk Insurance Act in the USA, the GAREAT scheme in France, the CCS scheme in Spain and the SASRIA scheme in South Africa.

SUMMARY OF FINANCIAL INFORMATION

As at 30 June 2004, ARPC's reserve for claims stood at \$18.164 million.

Gross written premium as at 30 June 2004 was \$55.801 million (net of GST). The gross written premium includes \$23.947 million of unclosed business.

Expenses, including acquisitions costs, administration costs and payments made under ARPC's service level agreements, totalled \$1.576 million.

INFLUENCES ON FUTURE PERFORMANCE

The reinsurance premiums collected by ARPC are dependent on the underlying premiums charged by its clients. Any softening of those underlying premiums will have a negative effect on ARPC's premium income.

ARPC relies on its clients to return the correct amount in reinsurance premiums. During 2003-04 ARPC concentrated on educating its clients in the operation of the TI Act and designed a premium calculation template for use by clients to minimise the likelihood of errors occurring in the calculation of the reinsurance premiums due. In 2004-05 ARPC will implement a program of client visits during which reviews will be conducted. The purpose of those reviews will be to identify and rectify any errors in the calculation of reinsurance premiums.

OUTCOME AND OUTPUT FRAMEWORK

APRC has developed a business plan for the 2004-05 financial year. From this business plan, ARPC will develop a measurement and reporting framework. The aim is to develop performance indicators against which performance will be measured. The performance indicators will seek to measure more than purely financial performance.

SIGNIFICANT EVENTS

No significant events occurred during the year which required notification to the Minister under section 15 of the *Commonwealth Authorities and Companies Act 1997*.

CHAPTER 3: MANAGEMENT AND ACCOUNTABILITY

CORPORATE GOVERNANCE

ARPC has a part-time non-executive Chair and four other part-time non-executive Members. All Members are appointed by the Minister.

The Members who held office during 2003-04 are:

Mr Joseph Gersh, Chair – appointed 1 July 2003

Ms Lorraine Allan – appointed 5 February 2004

Mr Murray Edwards – appointed 1 July 2003, resigned January 2004

Mr Andrew Lumsden – appointed 1 July 2003

Ms Marian Micalizzi – appointed 1 July 2003

Mr James Murphy – appointed 1 July 2003

There were nine meetings of Members held during 2003-04. The table below sets out the number of meetings attended by each Member.

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Joseph Gersh	9	9
Ms Lorraine Allan	3	3
Mr Murray Edwards	6	6
Mr Andrew Lumsden	9	9
Ms Marian Micalizzi	9	8
Mr James Murphy	9	9

ARPC has documented its corporate governance framework in a board Charter, the terms of reference of its committees and the delegations to the Chief Executive.

With the consent of the Chair, Members have the right to seek independent advice, including legal, accounting and financial advice, at ARPC's expense. The terms of reference of each committee authorises the committee to take whatever independent advice it considers necessary.

The Members are considering methods of evaluating board performance and will institute a formal review process during 2004-05.

ARPC is committed to following corporate governance best practice. To this end, it monitors developments in corporate governance from a range of sources, including the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission, the Australian Stock Exchange and the Australian National Audit Office (ANAO). While ARPC is not regulated by APRA, it considers that APRA's standards for general insurers represent best practice and it will benchmark itself against those standards.

APRC has established two committees, the Audit and Compliance Committee and the Risk Committee. Both committees have terms of reference which were approved and adopted by Members. The terms of reference govern the powers, composition, duties and responsibilities of each committee and the conduct of committee meetings.

Audit and Compliance Committee

The purpose of the Committee is to:

- (a) assist the Board to:
 - (i) fulfil its responsibilities in relation to ARPC's accounting and financial reporting obligations;
 - (ii) comply with ARPC's statutory obligations;
 - (iii) oversee the work of the internal auditors; and
- (b) provide a forum for communication between Members, the senior management of ARPC, the internal auditor and ANAO.

The Members of the Committee are:

Mr Andrew Lumsden, Chair;

Ms Marian Micalizzi; and

Mr James Murphy.

There were three meetings of the Committee held during 2003-04. The table below sets out the number of meetings attended by each Committee member.

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Andrew Lumsden	3	3
Ms Marian Micalizzi	3	3
Mr James Murphy	3	3

Risk Committee

The purpose of the Committee is to:

- (a) identify and understand the risks faced by ARPC;
- (b) establish and maintain an appropriate, adequate and effective risk management and control system; and
- (c) ensure that management monitors the effectiveness of the risk management and control system.

The Members consider that risk is a matter for the board as a whole. However, a Risk Committee has been established to ensure that risk is considered as a separate issue and not merely as another agenda item at a meeting of Members. All Members are members of the Committee and one of its main tasks is to review (at least annually) ARPC's risk management strategy.

During 2003-04, the identification of the risks facing ARPC and strategies to minimise and manage those risks were considered at meetings of Members. Consequently, the Risk Committee did not sit independently during 2003-04.

Investment Committee

When Members consider it prudent to investigate investing surplus funds other than in cash at the Reserve Bank, the Investment Committee will be convened. The purpose of the Investment Committee will be to:

- (a) advise Members on the selection of:
 - (i) appropriate investments for ARPC's surplus money; and
 - (ii) appropriate fund managers and custodial administrators; and

- (b) assist Members to:
 - (i) ensure that ARPC's surplus money is invested in accordance with the *Commonwealth Authorities and Companies Act 1997*; and
 - (ii) monitor the performance of ARPC's investments.

CODE OF CONDUCT

The Members have adopted a code of conduct by which they have agreed to be bound. The code provides that Members must:

- (i) act honestly and ethically;
- (ii) not allow personal interests, or the interests of any other person or organisation, to influence their conduct;
- (iii) bring an independent judgment to bear on all matters considered by the board;
- (iv) not engage in conduct likely to discredit ARPC;
- (v) treat fellow Members and ARPC's employees with courtesy and respect; and
- (vi) comply with the spirit, as well as the letter, of the law.

MEMBERS' APPOINTMENT AND REMUNERATION

Members are appointed in writing by the Minister. All appointments are on a part-time basis and the period of appointment must not exceed four years. The Minister must not appoint a person as a Member unless the Minister is satisfied that the person:

- (a) has suitable qualifications and experience; and
- (b) is of good character.

Members' remuneration is set by the Remuneration Tribunal.

ROLE OF THE RESPONSIBLE MINISTER

The Minister responsible for ARPC is the Treasurer, the Hon Peter Costello, MP. The Minister appoints ARPC's Members.

This is the first formal report by Members to the Minister. Members will continue to report formally to the Minister through their annual report of operations.

The TI Act permits the Minister to give written directions to ARPC in relation to the performance of its functions and the exercise of its powers. The Minister has given two directions to ARPC during the year ended 30 June 2004. These directions are in respect of retained risk and premiums. The effect of those directions is explained in Chapter 4.

CHAPTER 4: OTHER MISCELLANEOUS INFORMATION

RISK MANAGEMENT

ARPC commissioned Deloitte Touche Tohmatsu to undertake a risk assessment and analysis, including benchmarking ARPC against APRA's prudential standards for general insurers. The purpose of this assessment is to identify areas of significant business risk and to assist ARPC to put arrangements in place to manage risks and to monitor that risks are being managed appropriately.

ARPC has appointed Ernst & Young as its internal auditor. The internal auditor has proposed a three year audit plan commencing in 2004-05. During the 2003-04 financial year, the internal auditor undertook a review of ARPC's premium collection processes.

HUMAN RESOURCE MANAGEMENT

All staff, except the Chief Executive, are employed on fixed term contracts which expire on 30 June 2006. This date coincides with the date on which the first review of ARPC and its legislation is likely to occur.

The Chief Executive is employed on a two year fixed term contract with a two year option. The Chief Executive's contract commenced on 1 July 2003.

ARPC has outsourced many of its human resource management functions to Treasury through a service level agreement. The functions outsourced include payroll, occupational health and safety and recruitment procedures.

ARPC has introduced a performance management system to assist ARPC to improve its organisational capability. It provides a mechanism for performance review and feedback, coaching, skills development, reward and recognition.

ARPC promotes an ethical work environment by which it encourages staff to:

- strive for excellence;
- value teamwork, consultation and sharing ideas;
- value diversity among its people;

- treat everyone with respect;
- exhibit honesty in all their dealings; and
- treat colleagues with fairness.

OCCUPATIONAL HEALTH AND SAFETY

ARPC's occupational health and safety (OH&S) function has been outsourced to Treasury through a service level agreement. Treasury's OH&S policy is designed to foster and maintain a safe and healthy working environment in accordance with the *Occupational Health and Safety Act 1991*. One of ARPC's staff members is a member of Treasury's OH&S Committee. The OH&S Committee deals with occupational health and safety issues and policies, staff wellbeing, health and safety performance reporting, accommodation issues and accident and incident reports.

During 2003-04, ARPC received no accident or incident reports.

COMMONWEALTH DISABILITY STRATEGY

ARPC's workplace diversity and equal employment opportunity policies are covered by its service level agreement with Treasury.

ARPC is committed to implementing workplace diversity. As part of this commitment, ARPC will implement the strategies and initiatives of Treasury's Workplace Diversity Program which seeks to encourage and utilise the contribution of people of different backgrounds, experience and perspectives.

The focus of the program is to implement strategies that attract, develop and support employee participation that reflects the broad cross-section of the Australian community. A key element of Treasury's Workplace Diversity Program is its Disability Action Plan.

Management of ARPC meet regularly with officers of Treasury's Human Resource Unit to measure ARPC's performance against the principles contained in Treasury's Workplace Diversity Program, including the Disability Action Plan.

MINISTERIAL DIRECTIONS

The Minister gave ARPC two written directions during 2003-04. The directions and their effect are set out below.

- A direction in respect of the risk to be retained by reinsureds. The effect of this direction is that for all declared terrorist incidents which occur during the same financial year, the risk to be retained by a reinsured is an amount equal to the lesser of \$1 million or 4 per cent of the gross fire/ISR premium revenue. If all retentions in respect of a single declared terrorist incident would otherwise exceed \$10 million, the retentions will be reduced proportionately. The effect of this reduction is to limit the retention for all reinsureds in relation to a single declared terrorist incident to \$10 million.
- A direction in respect of premiums. The effect of this direction is to set the premium rates to be charged by ARPC under its reinsurance contracts. The rates are set as a percentage of the gross base premium written by a reinsured in respect of eligible insurance contracts according to the postcode tier in which the eligible property is situated.

INDEMNITIES AND INSURANCE PREMIUMS FOR OFFICERS

During the year, ARPC entered into a deed of indemnity with each of its Members. The indemnity is consistent with the requirements of the *Commonwealth Authorities and Companies Act 1997* in relation to such indemnities.

During the year, ARPC maintained and paid premiums for insurance covering Members and certain employees. The premium paid for the insurance, which includes liability for legal costs, was \$68,311.

JUDICIAL AND ADMINISTRATIVE DECISIONS AND REVIEWS

During the year ended 30 June 2004, there were no judicial decisions or reviews by outside bodies (other than ANAO's report on the financial statements) affecting ARPC of which it is aware.

FREEDOM OF INFORMATION

There were no freedom of information requests during the year ended 30 June 2004. The following statements are made as required by section 8 of the *Freedom of Information Act 1982*.

Functions, organisation and powers

ARPC's functions and powers are detailed in Chapter 1. An organisation chart is contained in Appendix 1.

Arrangements for outside participation

People or organisations outside ARPC may participate in policy formulation or the administration of its enactments by making representations to the Minister or to ARPC.

In addition, employees of ARPC meet regularly with industry bodies, clients and other interested parties outside the Australian Government for discussions on various matters.

ARPC documents and publications

ARPC produces a number of publications aimed at informing clients and others of ARPC and its functions. Key publications in 2003-04 included:

- *Terrorism Insurance Scheme* – a brochure outlining the basis of the scheme;
- a brochure of frequently asked questions;
- *Under the Cover* – a quarterly electronic newsletter distributed to clients.

Facilities for access

Facilities for inspecting documents are provided at ARPC's head office at:

Level 2 London Court
13 London Circuit
Canberra ACT 2600

Access may also be given at our Sydney office by prior arrangement.

Freedom of information procedures and initial contact point

Inquiries concerning access to documents or other matters relating to freedom of information should be directed to:

Chief Executive
Australian Reinsurance Pool Corporation
GPO Box 3024
Canberra ACT 2601
Tel: 02 6279 2100
Fax: 02 6279 2111
Email: arpc@treasury.gov.au

CHAPTER 5: FINANCIAL STATEMENTS

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STATEMENT BY MEMBERS

In our opinion, the attached financial statements for the year ended 30 June 2004 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.

In our opinion, at the date of this statement, there are reasonable grounds to believe that ARFC will be able to pay its debts as and when they become due and payable.

This statement is made in accordance with a resolution of the Members.



J I Gersh
Chair
21 September 2004



N E Weeks
Chief Executive
21 September 2004



T R Ament
Chief Financial Officer
21 September 2004



INDEPENDENT AUDIT REPORT

To the Treasurer

Matters relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial statements published in both the annual report and on the website of the Australian Reinsurance Pool Corporation for the year ended 30 June 2004. The Members are responsible for the integrity of both the annual report and the web site.

The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial statements.

If the users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements in the Authority's annual report.

Scope

The financial statements and Members' responsibility

The financial statements comprise:

- Statement by Members;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments, Contingencies and Administered Items; and
- Notes to and forming part of the Financial Statements

for the Australian Reinsurance Pool Corporation, for the year ended 30 June 2004.

The Members are responsible for the preparation and true and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Authority's financial position, and of its performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Members.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate Australian professional ethical pronouncements.

Audit Opinion

In my opinion, the financial statements:

- (i) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and applicable Accounting Standards; and
- (ii) give a true and fair view, of the matters required by applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the Finance Minister's Orders, of the financial position of the Australian Reinsurance Pool Corporation as at 30 June 2004, and of its performance and cash flows for the year then ended.

Australian National Audit Office

A handwritten signature in black ink, appearing to read 'Warren J Cochrane', written in a cursive style.

Warren J Cochrane
Group Executive Director

Delegate of the Auditor-General

Canberra
21 September 2004

Statement of financial performance

for the year ended 30 June 2004

	Notes	2004 \$'000	2003 \$'000
Premium revenue	4(a)	18,986	-
Outwards reinsurance expense		-	-
Net premium revenue		18,986	-
Claims expense		-	-
Reinsurance and other recoveries revenue		-	-
Net claims incurred		-	-
Acquisition costs	5	(198)	-
Underwriting result		18,788	-
Investment revenue	4(b)	532	-
Revenues from government	4(c)	222	-
General and administration expenses	5	(1,378)	-
Operating profit/(loss)		18,164	-
Amount transferred to reserve for claims	1(d) 12	(18,164)	-
Retained surplus at the end of the financial year		-	-

The above statement should be read in conjunction with the accompanying notes.

Statement of financial position

for the year ended 30 June 2004

	Notes	2004 \$'000	2003 \$'000
Current assets			
Cash	6	30,631	-
Receivables	7	24,197	-
Deferred acquisition costs		383	-
Other assets	8	90	-
Total current assets		55,301	-
Non-current assets			
Property plant and equipment	9	173	-
Total non-current assets		173	-
Total assets		55,474	-
Current liabilities			
Gross unearned premiums		36,816	-
Payables	10	440	-
Provisions	11	37	-
Total current liabilities		37,293	-
Non-current liabilities			
Provisions	11	17	-
Total non-current liabilities		17	-
Total liabilities		37,310	-
Net assets		18,164	-
Equity			
Accumulated reserves	12	-	-
Reserve for claims	12	18,164	-
Total equity		18,164	-

The above statement should be read in conjunction with the accompanying notes.

Statement of cash flows
for the year ended 30 June 2004

	Notes	2004 \$'000	2003 \$'000
Cash flows from operating activities			
Inflows			
Premiums received (grossed up for goods and services tax)		34,694	-
Interest received		403	-
Outflows			
Payment to creditors and employees (grossed up for goods and services tax)		(1,344)	-
Interest and other costs of finance paid		(218)	-
Goods and services tax paid to ATO		(2,895)	-
Net cash provided by/(used in) operating activities	13	30,640	-
Cash flows from investing activities			
Outflows			
Payment for plant and equipment		(9)	-
Net cash provided by/(used in) investing activities		(9)	-
Cash flow from financing activities			
Inflows			
Receipts from the Commonwealth		5,000	-
Outflows			
Payments to the Commonwealth		(5,000)	-
Net cash provided by/(used in) financing activities		-	-
Net increase/(decrease) in cash held		30,631	-
Cash at the beginning of the financial year		-	-
Cash at the end of the financial year	6	30,631	-

The above statement should be read in conjunction with the accompanying notes.

Schedule of commitments

	2004	2003
	\$'000	\$'000
By type		
Other commitments		
Service level agreements*	221	-
Operating leases**	228	-
Total other commitments	449	-
Commitments receivable	41	-
Net commitments	408	-
By maturity		
Service level agreements commitments		
One year or less	221	-
Total service level agreement commitments by maturity	221	-
Operating lease commitments		
One year or less	113	-
From one to five years	116	-
Total operating lease commitments by maturity	229	-
Commitments receivable	41	-
Net commitments by maturity	408	-

The above schedule should be read in conjunction with the accompanying notes.

Note: Commitments are GST inclusive where relevant.

* Outstanding contractual payments for service level agreements.

** Operating leases included are effectively non-cancellable and comprise:

<i>Nature of lease</i>	<i>General description of leasing arrangement</i>
Lease for office accommodation	Lease payments are subject to annual increase in accordance with upward movements in the Consumer Price Index

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

Note 1: Summary of significant accounting policies

ARPC is a statutory authority that was established as an independent entity wholly owned by the Commonwealth of Australia (**Commonwealth**) on 1 July 2003 by the TI Act. The following accounting policies have been adopted in the financial statements.

(a) Basis of accounting

The financial statements are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997*. This is a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (being the Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 30 June 2004));
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- Consensus Views of the Urgent Issues Group.

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets, which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are, however, not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than unquantifiable or remote contingencies, which are reported at Note 20).

Revenues and expenses are recognised in the Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

(b) Going concern

The financial report has been prepared on the basis that ARPC is a going concern.

While ARPC is not in a position to quantify future claims from a declared terrorist incident, it has the benefit of:

- the capping of its liabilities at \$10 billion because of the effect of section 6(7) of the TI Act (specification of a reduction percentage if the Minister considers that, in the absence of a reduction percentage, the total amounts paid or payable by the Commonwealth would be more than \$10 billion);
- the guarantee contained in section 35 of the TI Act by which the Commonwealth guarantees the payment of money that may become payable by ARPC to any person other than the Commonwealth. This guarantee would extend to any payments required to be made under the \$1 billion commercial line of credit which ARPC has entered into.

(c) **Premium revenue**

Premium revenue comprises amounts charged to insurers excluding taxes collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premiums are recognised as earned based on time from the date of attachment of risk. Premiums not received at reporting date and for the quarter ended 30 June 2004 are recognised as premiums receivable.

Unearned premium is determined using the eighth system, a fractional method of calculation of the balance. This method is driven by the assumption that that the risk attached to the revenue ceded expires evenly over each quarter of the financial year.

(d) **Reserves**

The intention of the Government in establishing ARPC was that premiums would be used to fund a \$300 million pool and to repay any loan required in the event that claims exceed the resources of the pool. The reserve for claims has been created to enable ARPC to build up the required pool.

(e) **Acquisition costs**

Acquisition costs are incurred in obtaining and recording policies of insurance. They include legal, advertising and other administrative costs.

A portion of acquisition costs relating to unearned premium revenue is deferred in recognition that it represents future benefits to the organisation. Deferred acquisition costs are measured at the lower of cost and recoverable amount. These costs are amortised on the same basis as the earning pattern of the premium.

(f) **Investment revenue**

Interest revenue is brought to account on an accruals basis.

(g) Revenue from Government

Resources received free of charge

Contributions of assets at no cost of acquisition or for nominal considerations are recognised as revenue at fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangement.

(h) Taxation

Income tax

ARPC is not subject to income tax by virtue of section 36 of the TI Act.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these cases the GST is recognised as part of the cost of the acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from or payable to the ATO is included in the current receivables and payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from or payable to the ATO are classified as operating cash flows.

(i) Dividends

Pursuant to section 38(3)(b) of the TI Act, the Minister may give written direction to require ARPC to make payments to the Commonwealth in the nature of dividends.

(j) Foreign currency

All foreign transactions are converted to Australian dollars at the exchange rate at the date of the transaction.

(k) Cash

Cash includes cash at bank.

(l) Plant and equipment

Asset recognition threshold

Purchases of plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than \$2,000, which are expensed in the year of acquisition.

Depreciation

Depreciable plant and equipment assets are written off to their estimated residual values over their estimated useful life to ARPC using, in all cases, the straight-line method of depreciation.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives.

- Computer equipment 3 years
- Other IT equipment 4 years
- Office equipment 5 years
- Furniture 7 years

(m) *Payables*

Creditors and other liabilities are recognised when ARPC becomes obliged to make future payments resulting from the purchase of goods and services.

All payables are unsecured and are paid within credit terms.

(n) *Employee entitlements*

Provisions for annual leave and long service leave have been established to provide for amounts expected to be paid to employees based on their entitlements. No provision has been made for sick leave as all sick leave is non-vesting.

The leave liabilities are calculated on the basis of employees' remuneration, including ARPC's employer superannuation contribution rate to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to the work of an actuary as at 30 June 2004. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation commitments

Statutory employer contributions are made by ARPC for employees and certain Members.

(o) *Leases*

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets.

ARPC entered into an operating lease agreement for office accommodation. The lease payments are charged to the statement of financial performance in the period they are incurred.

(p) **Rounding of amounts**

Amounts in the financial report have been rounded to the nearest thousand dollars in accordance with policy 1E.1(a) of the Finance Minister's Orders.

Note 2: Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-06

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply from 2005-06. The new standards are the AASB Equivalents to International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn with effect from 2005-06, but continue to apply in the meantime.

(a) **An explanation of how the transition to the AASB equivalents is being managed**

ARPC has taken the following steps for the preparation towards the implementation of AASB equivalents:

- (i) a project has been established to achieve transition to IFRS reporting. The plan requires the following key steps to be undertaken:
- identification of all major accounting policy differences between current AASB standards and the AASB Equivalents to IFRSs relating to ARPC progressively to 30 June 2004;
 - identification of system changes necessary to be able to report under the AASB Equivalents, including those necessary to enable capture of data under both sets of rules for 2004-05, and the testing and implementation of these changes;
 - preparation of a transitional balance sheet as at 1 July 2004, under AASB Equivalents, after 30 June 2004;
 - preparation of a AASB Equivalent balance sheet at the same time as the 30 June 2005 standards are prepared;
 - meeting reporting deadlines for the balance sheet 2005-06 under AASB Equivalent Standards;

- (ii) ARPC considers the accounting and disclosure differences to be complete in most respects as at 30 June 2004.

Major changes in accounting policy

Changes in the accounting policies under AASB Equivalents are applied retrospectively, i.e. as if the new policy had always applied. This rule means that a balance sheet prepared under AASB Equivalents must be made as at 1 July 2004, except as permitted in particular circumstances by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This will enable the 2005-06 financial statements to report comparatives under the AASB Equivalents also.

- (b) [Explanation of the key differences in accounting policies arising from the transition](#)

Insurance contracts

In respect of the reinsurance business, the changes to be effected in 2005 are minor. Due to Australia's current accounting treatments for insurance, the new standard will result in minimal change for ARPC.

Financial instruments — recognition and measurement

Financial assets and liabilities are likely to be accounted for 'held at fair value through profit and loss' or available-for-sale where the fair value can be reliably measured (in which case, changes in value are initially taken to equity). Fair values will be published prices where an active market exists or by appraisal.

Cash and receivables are expected to continue to be measured at cost information.

Financial assets, except those classified as 'held at fair value through profit and loss', will be subject to impairment testing.

Property, plant and equipment

It is expected that the Finance Minister's Orders will require property plant and equipment assets carried at valuation in 2003-04 to be measured at up-to-date fair valuation in 2005-06. This differs from the accounting policies currently in place for these assets which, up to and including 2003-04, have been devalued progressively over a 3-year cycle and which currently include assets at cost (for purchases since the commencement of a cycle) and at deprival value (which will differ from their fair value to the extent that they have been measured at depreciated replacement cost when a relevant market selling price is available). It is considered this will have a minimal effect on ARPC.

Employee benefits

The provision for long service leave is measured at the present value of estimated future cash outflows using market yields as at the reporting date on national government bonds.

Under the new AASB Equivalent standard, the same discount rate will be used unless there is a deep market in high quality corporate bonds, in which case the market yield on such bonds must be used. This will have a minimal impact on ARPC.

Note 3: Events occurring after reporting date

There have been no significant events occurring after reporting date that would significantly affect these financial statements.

Note 4: Premium revenue

	2004	2003
	\$'000	\$'000
Premium revenue		
(a) Gross written premium	55,801	-
Movement in unearned premium reserve	(36,815)	-
Total premium revenue	18,986	-
Investment revenue		
(b) Interest income	532	-
Total investment revenue	532	-
Revenues from government		
(c) Resources received free of charge from		
Department of Treasury	222	-
Total revenues from government	222	-
Total revenue	19,740	-

Note 5: Expenses

The presentation of expenses in the statement of financial performance is by function. This note presents expenses according to their nature.

	2004	2003
	\$'000	\$'000
Employee expenses	779	-
Goods from related entities	-	-
Services from related entities	100	-
Goods from external entities	44	-
Services from external entities	297	-
Operating lease rentals	80	-
Depreciation	58	-
Bank fees and charges	218	-
Total expenses by nature	1,576	-
Acquisition cost	198	-
General and administration expenses	1,378	-
Total expenses by function	1,576	-

Note 6: Cash at bank

	2004	2003
	\$'000	\$'000
Cash at bank	30,631	-
Total cash at bank	30,631	-

Note 7: Current assets — receivables

	2004	2003
	\$'000	\$'000
Trade debtors	24,055	-
Interest receivable	129	-
Net GST receivable from ATO	13	-
Total receivables	24,197	-

All receivables are current assets

Trade debtors

Credit terms are net 30 days. Trade debtors are non interest bearing.

Less than 30 days	24,197	-
30 to 60 days	-	-
60 to 90 days	-	-
More than 90 days	-	-
	24,197	-

Interest receivable

The interest rate ranges from 4.65% to 5.15% and the frequency of payment is monthly.

Note 8: Current assets — other assets

	2004	2003
	\$'000	\$'000
Prepayments	90	-

Note 9: Non-current assets — property plant and equipment

	2004	2003
	\$'000	\$'000
(a) Buildings		
Leasehold improvements		
- at cost	61	-
- accumulated depreciation	(11)	-
Total leasehold improvements	50	-
Total buildings	50	-
(b) Plant and equipment		
- at cost	170	-
- accumulated depreciation	(47)	-
Total plant and equipment	123	-
Total property plant and equipment	173	-
(c) Reconciliation of the opening and closing balances of property, plant and equipment:		

	Buildings leasehold improvements	Plant and equipment	Total
As at 1 July 2003			
Gross book value	-	-	-
Accumulated depreciation	-	-	-
Net book value	-	-	-
Additions			
Assets received free of charge	60	162	222
By purchase	1	8	9
Depreciation expense	(11)	(47)	(58)
As at 30 June 2004			
Gross book value	61	170	231
Accumulated depreciation	(11)	(47)	(58)
Net book value	50	123	173

Note 10: Current liabilities — payables

	2004	2003
	\$'000	\$'000
Trade creditors	145	-
Accruals	295	-
Total payables	440	-

Trade creditors:

Settlement is usually made net 30 days.

All of ARPC's liabilities are guaranteed by the Australian Government pursuant to section 35 of the TI Act.

Note 11: Provisions

	2004	2003
	\$'000	\$'000
(a) Current		
Employee benefits	37	-
(b) Non-current		
Employee benefits	17	-

Note 12: Equity

	Accumulated results		Reserve for claims		Total equity	
	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance as at 1 July 2003	-	-	-	-	-	-
Net surplus/(deficit)	18,164	-	-	-	18,164	-
Transfer (from)/to reserve for claims(a)	(18,164)		18,164		-	-
Closing balance as at 30 June 2004	-	-	18,164	-	18,164	-

(a) Nature and purpose of the reserve for claims. ARPC has created a reserve for future claims equal to the accumulated surplus after administration costs at the end of each year.

Note 13: Reconciliation of operating surplus to net cash flows from operating activities

	2004	2003
	\$'000	\$'000
Surplus from ordinary activities	18,164	-
Depreciation expense	58	-
Assets received free of charge	(222)	-
Changes in operating assets and liabilities:		
Decrease/(Increase) in receivables	(24,274)	-
Decrease/(Increase) in deferred acquisition costs	(383)	-
Decrease/(Increase) in GST receivable	(13)	-
(Decrease)/Increase in unearned premiums	36,816	-
(Decrease)/Increase in payables	440	-
(Decrease)/Increase in employee benefits and other liabilities	54	-
Net cash inflow from operating activities	30,640	-

Note 14: External financial arrangements

	2004	2003
	\$'000	\$'000
In the event of a declared terrorist incident ARPC has unrestricted access to the following line of credit:		
Bank standby facility	1,000,000	-
Amount of facility used as at 30 June 2004	-	-
Facility available:	1,000,000	-
Any payment which becomes due under the facility agreement is guaranteed by the Commonwealth by virtue of section 35 of the TI Act.		
In the event of a declared terrorist incident ARPC has access to the following Commonwealth indemnity:		
Commonwealth indemnity	9,000,000	-
Amount of facility used as at 30 June 2004	-	-
Facility available:	9,000,000	-

Note 15: Staffing levels

	2004	2003
Number of full-time equivalent employees at 30 June 2004:	7	-

Note 16: Executive remuneration

	2004	2003
	\$'000	\$'000
The aggregate amount of total remuneration of executives shown below	438	-
The number of executives who received or were due to receive total remuneration of \$100,000 or more:		
\$150,000 - \$159,999	1	-
\$270,000 - \$279,999	1	-
Total number of executives	2	-

Note 17: Remuneration of auditors

	2004	2003
	\$'000	\$'000
Remuneration of the Auditor-General for auditing the financial statements for the reporting period.		
The fair value of services provided was:	99	-

Note: No other services were provided by the Auditor-General during the reporting period.

Note 18: Remuneration of Members

	2004	2003
	\$'000	\$'000
Remuneration paid or payable to Members of ARPC by ARPC or any related party	18	-
The number of Members whose remuneration from ARPC for the year fell within the following bands are:		
Nil	3	-
\$1 - \$9,999	3	-
Total number of Members of ARPC	6	-

Note 19: Related party disclosures

Members

The names of persons who were Members of ARPC during the financial year were: Mr J Gersh, Mr A Lumsden, Ms M Micalizzi, Mr J Murphy, Mr M Edwards and Ms L Allan.

Changes in membership during the year:

Mr M Edwards resigned during the financial year. Ms L Allan was appointed on 5 February 2004.

Information on remuneration of Members is disclosed in Note 18.

Transactions with Members and member related entities

ARPC has not entered into any contract with Members or their related entities.

Transactions with related entities

The service level agreement with the Department of the Treasury is considered a related party transaction. This agreement is for the provision of corporate support services to ARPC at a cost of \$99,870.

Controlling entity

ARPC was established by section 9 of the TI Act.

The ultimate controlling entity is the Commonwealth Government of Australia. ARPC is only authorised to transact business and carry out functions as provided in the TI Act or as approved or directed by the Minister. Its policies and contracts of reinsurance placed with it are guaranteed by the Commonwealth Government under section 35 of the TI Act.

Note 20: Contingent assets and contingent liabilities

Contingent assets

ARPC has no contingent assets

Contingent liabilities

ARPC has no contingent liabilities

Note 21: Segment reporting

ARPC was established under the TI Act to offer reinsurance for eligible properties within Australia against the risk of terrorism.

Revenue by geographical market:	2004	2003
	\$'000	\$'000
Australia	50,366	-
Overseas	5,435	-
Total revenue	55,801	-

Note: All risks are located within the Australian market.

Note 22: Financial instruments

(a) Interest rate risk

		Floating interest rate	Non-interest bearing	Total	Weighted average effective interest rate
	Notes	2004 \$'000	2004 \$'000	2004 \$'000	2004
					\$'000
Financial assets					
Cash at bank	6	30,631	-	30,631	5.09%
Non-insurance receivables (gross)	7	-	142	142	n/a
Total		30,631	142	30,773	
Total assets				55,474	
Financial liabilities					
Payables	10	-	440	440	n/a
Total		-	440	440	
Total liabilities				37,310	

		Floating interest rate	Non-interest bearing	Total	Weighted average effective interest rate
	Notes	2003 \$'000	2003 \$'000	2003 \$'000	2003
					\$'000
Financial assets					
Cash at bank and on hand	6	-	-	-	n/a
Non-insurance receivables (gross)	7	-	-	-	n/a
Total		-	-	-	
Total assets				-	
Financial liabilities					
Payables	10	-	-	-	n/a
Total		-	-	-	
Total liabilities				-	

(b) Net fair values of financial assets and liabilities

		Total carrying amount 2004 \$'000	Aggregate net fair value 2004 \$'000	Total carrying amount 2003 \$'000	Aggregate net fair value 2003 \$'000
	Notes				
Financial assets					
Cash at bank and on hand	6	30,631	30,631	-	-
Non-insurance receivables (net)	7	142	142	-	-
Total		30,773	30,773	-	-
Payables	10	440	440	-	-
Total		440	440	-	-

Financial assets

The net fair values of cash at bank and non interest bearing monetary financial assets are recognised at their carrying amounts.

Financial liabilities

The net fair value for payables, all of which are short term in nature, are recognised at their carrying amounts.

(c) Credit risk exposures

ARPC's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

ARPC has no significant exposures to any concentration of credit risk.

Appendix 1

ORGANISATIONAL STRUCTURE

Australian Reinsurance Pool Corporation

