ARPC

Annual Report
2011-12

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Corporate Governance Manager
Australian Reinsurance Pool Corporation
GPO Box 3024
Canberra ACT 2601
Email: enquiries@arpc.gov.au

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Australian Government

Australian Reinsurance Pool Corporation

11 September 2012

The Hon Bill Shorten, MP
Minister for Financial Services and Superannuation
Parliament House
CANBERRA ACT 2600

Dear Minister

I have pleasure in presenting to you the annual report of the Australian Reinsurance Pool Corporation for the year ended 30 June 2012. 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 that Act.

Yours sincerely

J.I. Gersh AM

Chair

Correspondence to: GPO Box 3024, Canberra ACT 2601
Level 3, Unit 1, 14 Childers Square, Canberra City ACT 2600
T: (02) 6279 2100 F: (02) 6279 2111 E: enquiries@arpc.gov.au
www.arpc.gov.au ABN 74807136872

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OVERVIEW

REPORT FROM THE CHAIR

It gives me a great deal of pleasure to present ARPC's 2011-12 annual report.

The report coincides with the completion of my third term of office as a Chair of ARPC and this will be my last report as I hand over to a new appointee in the near future.

It is rewarding to have chaired ARPC from its inception and to see the positive conclusions from the third (2012) triennial review of the scheme administered by ARPC. The scheme remains as relevant today as it was at inception.

The performance through 2011-12 very much tracked recent years with growth in the pool through retained premium, prudent investment decisions and growth in the scheme overall, aided by growth in the purchase of retrocession.

While the market's appetite for terrorism risk has not returned since the events of 11 September 2001, ARPC has been successful in developing a limited appetite for its pooled risk. In 2012 it succeeded in providing the Commonwealth with a buffer of $2.76 billion before it would be called upon to meet a claim.

This is entirely consistent with the aim of ARPC to insulate both the economy and the Commonwealth from the financial effect of a terrorist event.

Another aim of ARPC has been to promote a complete understanding of both the exposures insured in the pool and the nature of potential losses. 2012 marked the end of a three year exercise to understand the potential financial impacts arising from a broad range of terrorist scenarios. This information will assist in a further review of the adequacy of the scheme planned for 2015 and in educating markets about the pooled risk in the scheme.

I will leave ARPC well positioned to respond. It has successfully dealt with the issue of market failure for terrorism risk during my tenure and I am confident it will continue to function efficiently into the future.

I wish to acknowledge the valued contribution made by all members of ARPC's Board whilst I have been Chairman.

J I Gersh AM
Chair
11 September 2012

Report from the Chief Executive

Nine years on from the inception of ARPC the need for the scheme has not diminished. What was set up as a temporary solution to market failure clearly has a long life to run.

With this in mind in 2011-12 ARPC developed into a more sustainable operation with the cessation of two operational outsourcing arrangements and further development of internal capabilities. ARPC maintains a strong commercial focus and attempts to stay at the forefront of best practice with good corporate governance and risk management.

ARPC's 2011-12 operating result of $83.488 million reflects a 36 per cent increase over the previous year. This is attributable to an increase in premium income and investment income received on the pool funds.

Premium growth resulted from the hardening of primary insurance rates following the significant global property catastrophe losses over the 2011 calendar year. The gross written premium for 2011-12 was $124.709 million, which represents a 10.8 per cent increase on last year.

Active investment management and growth in the pool resulted in ARPC achieving an investment income of $40.886 million. At 30 June 2012 total equity in the scheme amounted to $360.192 million.

ARPC's retrocession program was renewed on 1 January 2012 in a hardening market. Rather than face increased terms ARPC opted to stretch the program, accepting more risk lower down through co-reinsurance lines and attempting to buy retrocession higher up at lower rates. At renewal the capacity was maintained at a similar level to the previous year at $2.76 billion (2010: $2.75 billion).

ARPC maintains a strong relationship with the insurance industry and continues to focus on ensuring that Australia has a comprehensive response mechanism to market failure for terrorism insurance.

ARPC has enjoyed a successful year and I look forward to working with Members and staff to ensure 2012-13 is equally successful.

In closing, I extend my thanks to Mr Gersh for his unwavering service to ARPC over nearly a decade as Chair of the Board

D M Matcham
Chief Executive
11 September 2012

Report of operations

The Members of the Australian Reinsurance Pool Corporation are pleased to present their annual report on the operations of the Corporation for the financial year ended 30 June 2012. This report is made in accordance with a resolution of the Members.

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 the resolution of the Members.

J I Gersh AM
Chair

11 September 2012

Marian Micalizzi
Member and Chair of the Audit and Compliance Committee
11 September 2012

Highlights

Below are the highlights from the 2011-12 financial year.

Financial	Outcome
Operating results	$83.488 million
Gross written premiums (GWP)	$124.709 million
Investment income	$40.886 million
Retrocession expense	$81.607 million
Retrocession program	$2.76 billion
Corporate Governance	**Result**
Internal audit	The Australian Reinsurance Pool Corporation (ARPC) undertook various audits during the year and no issues were identified that would have a material impact on ARPC's processes.
Risk management	ARPC continues to review and update risks and controls, and give regular updates to management and the Risk Committee.
Human resource management	**Result**
Employment agreements	The enterprise agreement was varied to extend the nominal expiry date from 2012 to 2014. The variation included an increase of employer superannuation contribution from 9 per cent to 15.4 per cent, a salary increase of 2.5 per cent per year over the next two years and an increase in the lifestyle payment.
Performance management system	ARPC's performance management system (PMS) was reviewed and updated to reflect changes to ARPC's enterprise agreement and how senior executive staff are assessed.
Client satisfaction	**Result**
Cedant review program	The cedant review program was insourced this financial year. ARPC conducted both full and follow up reviews to ensure cedants continue to comply with the reinsurance agreement.
Social/community	**Result**
Carbon footprint	ARPC implements strategies designed to minimise waste and conserve energy and water. The premises in Canberra and Sydney both have a 4.5 star energy rating.

REPORTING AGAINST OBJECTIVES

Below are ARPC's objectives and the organisation's performance against these during the 2011-12 financial year.

Objective 1

To meet our obligations under the *Terrorism Insurance Act 2003*

Performance:

- increased awareness of the aggregate exposures of the scheme
- increased knowledge of the potential insured impacts of a declared terrorist incident (DTI)
- initiated a review of the mechanism for the payment of claims in the event of a DTI
- readiness for an event.

Objective 2

To ensure the scheme meets community expectations

Performance:

- commenced analysis of the inclusion of mixed-use high-rise buildings in the scheme.

Objective 3

To ensure all insurers are aware of the scheme

Performance:

- maintained contact with clients and potential clients both individually and through appropriate industry forums
- maintained a good working relationship with the Insurance Council of Australia (ICA) and other appropriate industry bodies.

Objective 4

To collaborate with and assist other sovereign catastrophe schemes

Performance:

- continued support for the Organisation for Economic Cooperation and Development (OECD)
- regular interaction with other schemes around the world.

Objective 5

To keep the Government fully informed at all times

Performance:

- maintained sound relationships with Treasury through regular liaison meetings
- provided briefings as required to Treasury and the responsible Minister of any activities or events which relate to ARPC's core business.

Objective 6

To maintain the highest standards of corporate governance

Performance:

- annual report complies with Finance Minister's Orders (FMOs) and delivered to the responsible Minister within required time frames
- high quality Board and Committee papers delivered in sufficient time for consideration by members
- policies and procedures current and easily accessible by staff
- compliance report
- risk based internal audit program.

Objective 7

To run the scheme efficiently and effectively

Performance:

- three year moving average gross expense ratio below 6 per cent
- streamlined the premium receivables process.

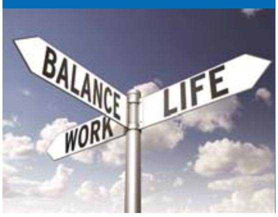
Objective 8

To manage the pool prudently

Performance:

- the internally and externally managed funds maintained capital intact and grew in line with their relevant benchmarks (for example the Reserve Bank of Australia (RBA) cash rate and the Union Bank of Switzerland Warburg (UBSW) three to five-year Australian government bond index).

Objective 9



To be an employer of choice

Performance:

- maintained a flexible work environment which allows employees to balance work and family life
- encouraged a supportive workplace
- encouraged staff to increase their skills by undertaking appropriate training
- encouraged staff to develop personally and professionally by attending relevant seminars, conferences and industry forums.

GUIDING PRINCIPLES

VISION

To be highly respected and valued for our role in providing financial protection to the Australian community.

MISSION

To provide a reinsurance facility to insurers seeking to place terrorism risk that cannot otherwise be placed with insurance markets.

PROMOTING AN ETHICAL WORKING ENVIRONMENT

ARPC is committed to promoting an ethical working environment for all staff. Its commitment can be demonstrated by the formal documentation of its values and code of conduct to which staff are required to adhere. ARPC's values and code of conduct are reinforced at each staff planning day and fraud awareness sessions.

Code of conduct

All employees must abide by ARPC's code of conduct. The consequences of breaching the code are documented and communicated to staff.

Integrity

ARPC's employees must:

- behave honestly and with integrity in the course of ARPC employment
- only accept gifts and hospitality in accordance with ARPC's policies.

Accountability

ARPC's employees must:

- act with care and diligence in the course of ARPC employment
- when acting in the course of ARPC employment, comply with all applicable Australian laws
- comply with any lawful and reasonable direction given by someone in ARPC who has authority to give the direction
- disclose, and take reasonable steps to avoid, any conflict of interest (real or apparent) in connection with ARPC employment
- use Commonwealth and ARPC resources in a proper manner
- comply with their employment contract or enterprise agreement (whichever applies).

Respect

ARPC's employees must:

- when acting in the course of ARPC employment, treat everyone with respect and courtesy, and without harassment
- treat every issue reasonably and fairly and without discrimination against any colleague, client or any other person.

Teamwork

ARPC's employees must:

- work collaboratively with their own team members and across teams
- jointly strive to achieve ARPC's goals
- cooperate with other staff members by sharing their skills and knowledge.

Professionalism

ARPC's employees must:

- maintain appropriate confidentiality of ARPC's information
- deal with clients without bias
- at all times behave in a way that upholds ARPC's values and the integrity and good reputation of ARPC
- while on duty overseas, at all times behave in a way that upholds the good reputation of Australia
- not make improper use of:
  - inside information
  - the employee's duties, status, power or authority, in order to gain, or seek to gain, a benefit or advantage for the employee or for any other person.

Staff development

ARPC's employees must:

- actively seek to update their level of competence and knowledge
- undertake relevant training and professional development courses as requested by ARPC.

PART ONE

ABOUT THE SCHEME

Part 1: About the scheme

Role and functions

Corporate background

The *Terrorism Insurance Act 2003* (TI ACT) establishes a scheme for terrorism insurance coverage for commercial property and associated business interruption. The TI Act also establishes the Australian Reinsurance Pool Corporation (ARPC) as a statutory authority to administer the scheme. Both the scheme and ARPC began operations on 1 July 2003.

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 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.

Before introducing the scheme, the Government considered the broad economic impacts that could result from a large pool of assets uninsured for terrorism risk. The potential impacts included delaying commencement of investment projects and altering portfolio management decisions as banks and commercial property trusts became concerned with the amount of property without adequate cover. The Government was concerned that the lack of comprehensive insurance cover for commercial property or infrastructure would lead to a reduction in financing and investment in the Australian property sector and that this would have wide economic impacts. These considerations led the Government to conclude that intervention was necessary.

The Government decided that any intervention should be consistent with the need to:

- maintain, to the greatest extent possible, private sector provision of insurance
- ensure that risk transferred to the Commonwealth is appropriately priced to minimise the impact on the Commonwealth's financial position
- ensure that the Commonwealth is being compensated by those benefiting from the assistance
- allow the commercial insurance and reinsurance markets to re-enter the market when they are able (that is ensuring an appropriate exit strategy for Government)
- be compatible with global solutions.

The TI Act overrides terrorism exclusion clauses in eligible insurance contracts to the extent the losses excluded are eligible terrorism losses arising from a declared terrorist incident (DTI). Insurers may reinsure this additional risk with ARPC.

Legislative function

ARPC's function is to provide insurance 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
- the power to charge fees for services that it provides in connection with the performance of its functions.

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.

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 2012, ARPC had 24 employees (including the Chief Executive). Twenty employees work full time, three work part time and one is on maternity leave.

Twenty employees are located in ARPC's Canberra office and four employees are located in the Sydney office. The Canberra office manages the corporate governance, corporate services and human resources functions, and the Sydney office is responsible for claims, cedant reviews, client services and reinsurance.

An organisational chart illustrating functional responsibilities is attached (Diagram 1.1).

Diagram 1.1: ARPC organisational chart

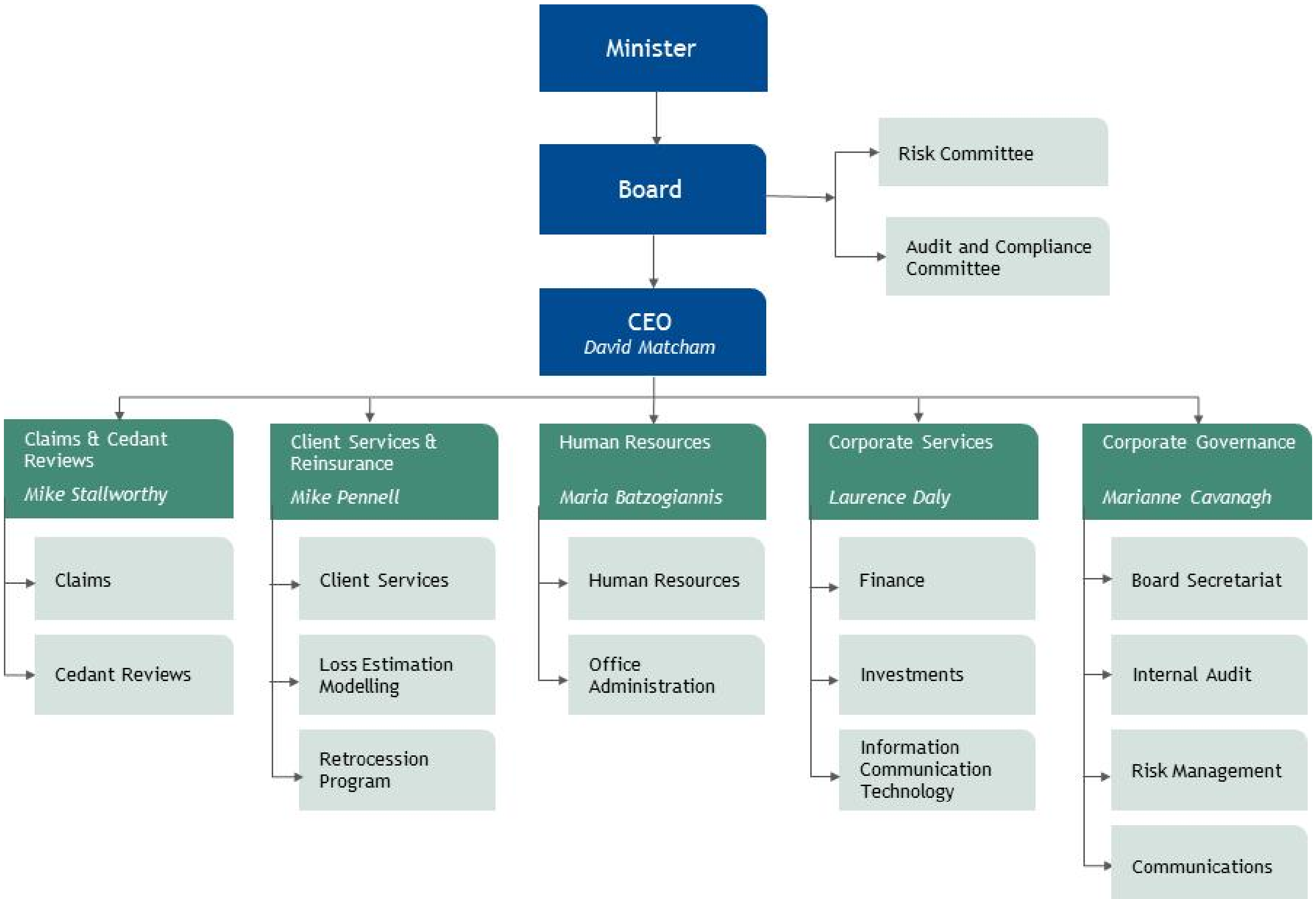


Photo 1.1: ARPC staff from Canberra and Sydney offices

THE SCHEME

The TI Act effectively deems terrorism risk cover into eligible insurance contracts by rendering terrorism exclusion clauses void. Insurance companies are able to reinsure the risk of claims for eligible terrorism losses through the ARPC. If they choose to do so, premiums are payable to ARPC.

More specifically, the TI Act operates by overriding terrorism exclusion clauses in eligible insurance contracts to the extent the losses excluded are eligible terrorism losses arising from a DTI. It makes these clauses ineffective for all classes of insurance included in the scheme, for those risks covered by the policyholder's insurance. This requires insurers to meet eligible claims in accordance with the other terms and conditions of their policies.

The compulsory application of the scheme 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 DTI.

The coverage

Contracts of insurance covered by the scheme are those that provide insurance for:

- loss of, or damage to, eligible property that is owned by the insured
- business interruption and consequential loss arising from:
  - loss of, or damage to, eligible property that is owned or occupied by the insured

- inability to use eligible property, or part of eligible property, that is owned or occupied by the insured;

- liability of the insured that arises out of the insured being the owner or occupier of eligible property.

Eligible property is property located in Australia comprising of:

- buildings (including fixtures) or other structures or works on, in or under land
- tangible property that is located in, or on, such property
- property prescribed by regulation.

Farms can also obtain cover if they hold insurance against business interruption.

The scheme covers eligible terrorism losses for any DTI covered by an eligible insurance contract where the insurer has a reinsurance agreement with ARPC. Insurers are required to meet eligible claims, in accordance with the other terms and conditions of their policies. Eligible terrorism losses do not include a loss or liability arising from the hazardous properties of nuclear fuel, material or waste.

The scheme does not cover residential property or the contents of residential property.

The regulations also exclude contracts of insurance that provide cover for, inter alia, workers' compensation insurance, marine insurance, aviation insurance, motor vehicle insurance, life insurance, health insurance, private mortgage insurance, medical indemnity insurance and professional indemnity insurance.

The TI Act includes (at section 5) a definition of terrorist act. In order to have consistency across Commonwealth legislation, the definition draws on the meaning of terrorist act contained in the Criminal Code. The Minister, in consultation with the Attorney-General, determines whether a terrorist act has happened in Australia. Once that determination has been made the Minister will announce a DTI under section 6 of the TI Act. Upon that declaration, the provisions of the TI Act in respect of eligible terrorism losses become effective.

The pool

Insurance companies that write eligible insurance contracts may reinsure with ARPC the risk of claims for eligible terrorism losses. Premium and investment income continue to build ARPC's funds available to cover claims from a DTI. ARPC's reserves are supplemented by a $2.76 billion retrocession program and a Commonwealth guarantee that is capped at $10 billion. Diagram 1.2 illustrates the scheme structure.

Diagram 1.2: Scheme structure

Claims will be first met from ARPC's pool of funds and if necessary the Commonwealth guarantee. Once claim payments have reached ARPC's retrocession deductible, currently $375 million, losses will then be split between ARPC's retrocession program and co-reinsurance lines provided by any balance of the pool and the Commonwealth guarantee. Once the retrocession program has been fully expended further losses will be met by the Commonwealth guarantee.

Reduction percentage

If the Minister considers that, in the absence of a reduction percentage, the total amounts paid or payable by the Commonwealth under the guarantee contained in section 35 of the TI Act would exceed $10 billion, then the announcement of a DTI must be accompanied by the specification of a reduction percentage. The effect of a reduction percentage is to reduce the amounts payable under eligible insurance contracts as a result of eligible terrorism losses. The reduction percentage may be varied, but only by making it smaller.

Retentions

Insurers that reinsure their terrorism risks with Australian Reinsurance Pool Corporation retain part of the risk of liability from a DTI. Retentions are calculated at 4 per cent of fire and industrial special risk premiums collected by the insurer, with a minimum retention of $100,000 and a maximum retention of $10 million.

The initial retention is contained in the reinsurance agreement entered into with ARPC and is reviewed annually as at 1 July.

In addition to individual insurer retentions, the reinsurance agreement provides for maximum industry retention. If the retentions of insurers in respect of all eligible terrorism losses caused by a single DTI exceed the maximum industry retention of $100 million, the individual insurer's retention is reduced proportionately.

The Ministerial direction in relation to retentions is discussed in Chapter 3.

Layers of the scheme

The scheme effectively provides a layered model that operates from the ground up to spread the cost of any claims. Table 1.1 illustrates the layers that are now in place.

Table 1.1: Layers of the scheme

Layer	Element
Layer 6	Possible liability for some risk by policyholder, through the operation of the reduction percentage or policy limits
Layer 5	Commonwealth guarantee
Layer 4	Retrocession program funded from premium income (with co-reinsurance provided partly from ARPC's reserves and partly from the Commonwealth guarantee)
Layer 3	ARPC's deductible under its retrocession program
Layer 2	Retention of some risk by insurers
Layer 1	Policyholder's liability for some risk through a possible excess or deductible

As noted above, a commercial policy holder retains some risk. For example:

- There may be an excess or deductible set in the insurance policy.
- A commercial policy holder will not receive a full payout under the insurance policy if a reduction percentage is specified.
- The actual loss may be greater than the upper limit of cover provided by the policy.

PREMIUMS

The premium charged by ARPC for reinsurance is determined by Ministerial direction. The premiums have been set having regard to the level of risk. There are three broad tiers based on geographic location and identified by postcode. Table 1.2 demonstrates the breakdown of tiers and the geographical location to which they relate.

Reinsurance premiums are calculated as a percentage of the premium written by the reinsured that is attributable to the eligible insurance contract, in accordance with the Table 1.3. At the introduction of the scheme it was acknowledged that reinsurance premiums would be increased in the event of a significant claim on the scheme. This will enable ARPC to finance its liabilities and rebuild the pool.

Table 1.2: Tier based on geographical location

Tier	Explanation
A	Covering the CBD areas of Australian cities with a population of over one million (Sydney, Melbourne, Brisbane, Perth and Adelaide)
B	Covering the urban areas of all state capital cities and cities with a population over 100,000 (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)
C	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

Table 1.3: Premium structure for reinsurance

Class of insurance	Tier	Initial rate from 1 October 2003 per cent
Commercial property	A	12
	B	4
	C	2
Business interruption	A	12
	B	4
	C	2
Public liability		Nil

ARPC's premium and investment income is used to fund its operations and build the pool available to meet future claims. The TI Act provides that the Minister may direct ARPC to pay dividends to the Commonwealth.

As at 30 June 2012, no dividend payments have been paid by ARPC. The 2012 review of the scheme recommended that ARPC pay a dividend to the Commonwealth of $400 million to be spread over four years.

The Ministerial direction in relation to payments to the Commonwealth is discussed in Part 3.

Premiums on bundled insurance policies

The Ministerial direction in relation to premiums requires ARPC to charge reinsurance premiums only on those sections of a bundled insurance policy that exclude terrorism risks. A bundled insurance policy is one that:

(a) comprises two or more distinct insurance covers that have been packaged or bundled together

(b) is offered on the basis that the insured must take out one or more of the number of insurance covers offered

(c) in relation to which the premium attributable to each insurance cover the eligible insurance contract comprises is precisely quantifiable

(d) contains:

i) some insurance covers, each of which, if provided individually, would be an eligible insurance contract

ii) other insurance covers, none of which, if provided individually, would be an eligible insurance contract.

Reporting of premiums

ARPC continues to develop and improve its online reporting system, RISe, which enables secure electronic submission by clients of annual aggregate reports and premium returns. It also allows clients to access basic market share information. The electronic submission of data enhances ARPC's ability to analyse that data.

During 2011-12 ARPC continued to improve the functionality and usability of RISe by:

- updating and clarifying system messages on submission and error screens
- expanding the file types permitted on submissions to include .xlsx format
- expansion of logs recording changes to and the deletion of submissions
- increasing internal reporting capabilities
- creating an interface between RISe and ARPC's accounting system, to automate the processing of premium submissions.

INDUSTRY INVOLVEMENT

ARPC's senior executive staff are involved in international and local forums discussing resilience and insurance solutions for terrorism, flood and other catastrophe events.

During 2011-12 ARPC continued a dialogue with the ICA to ensure that the scheme responds comprehensively to areas of market failure and to all events covered by the TI Act.

The triennial review of the scheme, which occurred again in 2012, involved consultation with stakeholders, including insurance industry participants and state and federal governments and agencies. The wide consultation ensures that the views of stakeholders are considered when refinements to the scheme are considered.

PARTNERING WITH ANZIIF

Our CEO, David Matcham, was one of the distinguished panel of industry judges for the 2012 insurance industry awards hosted by the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) and the Asia Insurance Review (AIR). These annual awards honour the achievements of companies and individuals within the Australian insurance market. Photo below left shows David presenting an award to David Sandoe of Finity Consulting Pty Ltd.

Mike Pennell, our Client Service and Reinsurance Manager, is a syndicate director at ANZIIF's annual intensive three-day Reinsurance Study Course where he teaches all aspects of reinsurance. Now in its 44th year, the study course is widely considered to be the best training for the reinsurance sector in the southern hemisphere. Photo below right shows Mike with students at the 2012 study course.

Mike is also on the organising committee for one of ANZIIF's key events, the 25th 'Reinsurance Rendezvous', and will be chairing a panel discussion on 'Floods and Other Catastrophes'. The 2012 rendezvous was held in the Hunter Valley in September.

ANZIIF is the leading provider of education, training and professional development services to the insurance and financial services industry in Australia, New Zealand and the Asia Pacific region.

Review of the scheme

The scheme was established as an interim measure and is intended to operate only while terrorism insurance cover is unavailable commercially on reasonable terms. At the time it was established, the Government also considered that uncertainty in the market made it impossible to stipulate the details or timing of its windup. As a result the TI Act requires that, at least once every three years after the start up time, the Minister must prepare a report that reviews the need for the TI Act to continue in operation.

Reviews were completed in June 2006, June 2009 and May 2012. The fourth review is due to report by 30 June 2015.

The 2006 review

After consulting with stakeholders and considering international experience, the review concluded that there was still a need for the Act to continue in operation subject to a further review in no more than three years. The review considered that, while the market for terrorism insurance had recovered somewhat since the scheme was introduced; insufficient terrorism insurance was available commercially on reasonable terms.

The review identified a need to encourage private sector involvement, to the greatest extent possible, to avoid crowding out the market and allow the Government to withdraw once terrorism insurance is commercially available on reasonable terms. It noted that it is important for ARPC to develop its exposure modelling capability to encourage greater private sector involvement in terrorism cover. It also concluded that high-rise residential property and discretionary mutual funds should not be included in the scheme.

The review recommended that:

- ARPC be required to continue charging premiums for reinsurance at the current rates, subject to further review in no more than three years
- once the pool reaches $300 million, ARPC has discretion to determine whether to use premiums to build the pool further, purchase reinsurance for the scheme or undertake a combination of the two
- insurer retentions under the scheme be increased in three increments (with effect, respectively, from 1 July 2007, 1 July 2008 and 1 July 2009)
- in relation to bundled insurance policies, ARPC be required to only charge reinsurance premiums on those sections of the policy that exclude terrorism risk.

All recommendations were accepted by Government and all were implemented by ARPC. Reinsurance premiums were unchanged and a retrocession program was introduced effective from 31 December 2008. Insurer retentions were increased in line with the review recommendation and ARPC altered the way in which premiums on bundled insurance policies are calculated.

The 2009 review

The 2009 review considered the need for the Act to continue in the context of the international terrorism insurance market, which had been characterised by improvements in the availability and affordability of terrorism insurance, subject to certain limitations. Despite these improvements, the review found that there was still insufficient capacity to meet demand for terrorism insurance at commercially affordable rates. While global capacity for reinsurance of terrorism risk had improved for national pooled arrangements, there was insufficient capacity at reasonable prices for individual risks.

The review recommended that the Act continue in operation, subject to further review in no more than three years' time. Further examination of the availability of commercial reinsurance on reasonable terms will then be undertaken. The review also supported maintaining, to the greatest extent possible, private sector provision of terrorism insurance.

The review considered refinements to the operation of the scheme and recommended:

- ARPC continue to collect premiums at current rates and investigate the purchase of further retrocession with funds from the pool. The relationship between premiums and the pool, and the impact of retrocession on the pool and the scheme more generally, be further considered the 2012 review

- industry retention levels remain at the levels that took effect on 1 July 2009, noting that the appropriateness of the current levels and structure of retentions should be re-examined in the 2012 review

- ARPC not be required to maintain a line of credit facility for the scheme, guaranteed by the Commonwealth, but should investigate purchasing additional retrocession capacity for the scheme

- ARPC examine the effects of extending the scheme to mixed-use high-rise buildings that are not predominantly for commercial use

- property that is wholly for residential use, including defence force and student accommodation involving commercial property financing, continue to be excluded from the scheme

- Treasury, with the assistance of an outside contractor, update the allocation of individual postcodes to particular tiers to ensure that all postcodes are allocated to the correct tier.

All recommendations were accepted by Government. Premium and retention levels remain unchanged. The line of credit was not renewed on expiry. Residential property continues to be excluded from the scheme.

During 2009-10, ARPC conducted an examination of the effects of extending the scheme to mixed-use high-rise building that are not predominantly for commercial use. ARPC consulted widely during the enquiry and reported to the Minister by 30 September 2010.

The report recommended, inter alia, that the existing test of predominance be retained, thus continuing to exclude mixed-use high-rise buildings in accordance with the existing protocols. The report is available on ARPC's website at http://www.arpc.gov.au.

Treasury engaged Geoscience Australia (GA) to undertake the recommended update of postcode allocations. The outcome of the update was reported in ARPC's 2010-11 annual report and is reflected in the current Ministerial direction in relation to premiums, which is discussed in Part 3.

The 2012 review

The 2012 review of the need for the TI Act to continue recommended that:

- the TI Act continue in operation, subject to a further review within three years
- ARPC's current premium pricing policy remain unchanged
- ARPC's current industry and individual insurer retention levels remain unchanged
- an assessment of the appropriate capacity of the scheme should be undertaken as part of the next review of the TI Act
- in the context of the review of the capacity of the scheme, the next review of the TI Act should reassess the continuing need for, and cost benefit of, ARPC's retrocession program
- the issue of mixed-use high-rise buildings that are not predominantly for commercial use be re-examined prior to the next review of the TI Act
- ARPC pay an initial dividend to the Commonwealth of $400 million, to be spread over four years, with the first payment to be made in January 2013.

In making these recommendations the review considered international approaches, the insurance market in Australia, possible refinements to the scheme and the payment of a dividend to the Commonwealth.

International approaches

The review noted that approximately 20 countries have established various kinds of cooperative terrorism insurance arrangements. Of these, ten are public private partnerships with government involvement of varying degrees. While no two schemes are the same, Australia's terrorism insurance scheme has a number of similarities with schemes established in major OECD economies, but remains responsive to the particular needs of the Australian financial market.

The key features of the Australian scheme are that:

- it is a temporary measure
- it is a public private partnership
- terrorism exclusion clauses are overridden in eligible insurance contracts
- insurer participation via reinsurance with the government reinsurer is voluntary
- funding for the scheme consists of a pool of funds accumulated from insurer premiums and investment revenue, reinsurance and a government guarantee
- insurer retentions and premiums are set by government

- it only covers commercial property and associated business interruption and public liability risks.

Although it covers a narrower range of assets and risks than some other schemes, it has been structured to meet the particular needs of Australia's financial market.

The insurance market in Australia

The review noted that, although the Australian general insurance industry is relatively well positioned, it is nonetheless part of the international reinsurance market, which has recently faced tough conditions. Significant losses from the tsunami in Japan, earthquakes in New Zealand and Chile, cyclones in North America, and floods in Australia, resulted in tens of billions of dollars in losses to the industry.

Given the recent losses suffered by reinsurers, reports of a repricing of risk in the reinsurance market in Australia are not unexpected. Significant pressure is being applied to retention levels, pricing on loss-affected layers and minimum rates on lines charged on upper layers.

These developments have occurred against an underlying shortage of reinsurance capacity for individual terrorism risks at affordable prices, a situation that has remained unchanged since 2009.

In light of the underlying shortage of affordable reinsurance for terrorism risk and the impact of large scale reinsurance losses across the Asia Pacific area on the availability of reinsurance, the review recommended that the TI Act continue in operation, subject to a further review within three years, at which time an examination of the availability of commercial terrorism reinsurance on reasonable terms be undertaken.

Possible refinements to the scheme

Premiums

The review noted that pricing undertaken by a Commonwealth agency such as ARPC should meet three objectives:

- the Government should be fairly compensated for providing protection of a commercial nature against terrorism events
- the interest of taxpayers should be protected, given the Commonwealth provides a $10 billion guarantee
- pricing should not discourage greater private sector involvement of the commercial insurance market in providing cover for terrorism.

Analysis of the scheme against these three objectives supports the case for ARPC to continue to collect premiums at current levels.

The review found that ARPC's pricing policy:

- adequately reflects the risks it bears from its terrorism reinsurance program and should be retained
- is not impeding the re-emergence of the commercial market in the provision of terrorism risk cover in Australia.

Consequently, the review recommended that ARPC's current pricing policy remain unchanged.

Industry retentions

The issues considered by the review were whether:

- the current level and structure of retentions that apply to individual entities that reinsure with ARPC are appropriate
- the overall industry retention per incident is appropriate
- increasing this retention would encourage insurers to seek out reinsurance privately.

One of the underlying principles of the scheme is that it should be designed to allow the re-emergence of the commercial market for terrorism risk cover. Raising retention levels requires insurers to retain a greater amount of terrorism risk, which they can decide to self-insure or seek to commercially reinsure. Either course of action increases private sector involvement in the provision of terrorism risk cover.

The review noted that the industry retention levels remain at the level that took effect on 1 July 2009. It also noted that the appetite for the private provision of terrorism insurance remains low and capacity is not readily available at reasonable rates. Any further increases in retentions could exacerbate the difficulties insurers have in obtaining cover to reinsure their retentions. In addition, increasing retentions may require insurers to hold additional terrorism risk, which would require them to hold additional capital as a buffer for this risk.

In light of these considerations, the review recommended that ARPC's current industry and individual insurer retention levels remain unchanged.

Retrocession

The review examined whether the continued purchase of retrocession by ARPC represents an appropriate use of funds.

Observations made in support of continuing the current arrangements include that the retrocession program:

- encourages the return of the commercial terrorism insurance and reinsurance market for Australian risks
- increases the overall capacity of the scheme
- places the Commonwealth further from the risk of terrorism losses under the scheme
- reduces the likelihood that a reduction percentage will be required.

Consultations as part of the review found that industry participants were uniformly of the view that the retrocession program represents a prudent use of ARPC's funds. The review noted, however, that the growth of the scheme has continued unabated since it was first established, owing in large part to a history of no claims against the scheme and the growth of ARPC's retrocession program.

The review recommended that:

- an assessment of the appropriate capacity of the scheme should be undertaken as part of the next review of the TI Act, taking into consideration the size of the government guarantee and any retrocession purchased by ARPC, as well as the level of ARPC's exposure to risk

- the next review of the TI Act should reassess the continuing need for, and cost benefit of, ARPC's retrocession program in the context of the review of the capacity of the scheme.

Mixed-use high-rise building cover

While not specifically mentioned in the review's terms of reference, many of the stakeholders contacted by the review raised the issue over whether the scheme should be extended to cover mixed-use high-rise buildings.

The review recommended that the issue of mixed-use high-rise buildings that are not predominantly for commercial use is re-examined prior to the next review of the Act.

Payment of a dividend

The review considered whether ARPC should commence paying the Commonwealth a dividend, and if so, the amount and timing of the dividend.

Since its inception, the terrorism insurance scheme has been backed by a Commonwealth guarantee of ARPC's liabilities to the amount of $10 billion. From the outset, it was anticipated that ARPC would compensate the Commonwealth for providing the guarantee. This is consistent with Government policy to be compensated for any risk it assumes, where possible.

The review asked the Australian Government Actuary (AGA) to consider the impact of an initial dividend of $400 million. This would be spread over four years in a dividend profile consistent with maintaining the capacity of the scheme at close to the current level. As a result this would not materially impact on ARPC's capacity to pay claims. The AGA noted the difficulty of confidently predicting the size of a possible claim on the scheme. The AGA considered, however, that the payment of four annual dividends amounting to a total of $400 million would not materially reduce the likelihood that the scheme would be able to fully meet the cost of claims that might arise.

The AGA also noted that the payment of $400 million, spread over four years, would reduce the scheme's capacity, currently $13.1 billion, by around 3 per cent. This does not take into account future income such as premiums and investment income.

The review recommended that ARPC pay an initial dividend to the Commonwealth of $400 million, to be spread over four years, with the first payment to be made in January 2013. The question of the frequency and amount of any further dividends beyond 2016 should be considered in the context of the 2015 review

Part Two

Report on performance

PART 2: REPORT ON PERFORMANCE

FINANCIAL REVIEW

Summary of financial information

Table 2.1: Financial highlights

	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Net premium revenue	**37,523**	24,534	25,293	66,931	99,944
Acquisition costs	**(599)**	(609)	(603)	(599)	(452)
Retrocession commission income	**7,705**	8,004	7,551	3,446	-
Investment income	**40,886**	36,180	28,351	30,416	29,495
Other income	**5,484**	(88)	(596)	(254)	-
Revenues from Government	**-**	-	-	-	-
Other operating expenses	**(7,511)**	(6,635)	(6,800)	(5,395)	(4,353)
Operating result	**83,488**	61,386	53,196	94,545	124,634
Gross written premium	**124,709**	112,555	104,885	106,270	100,659
Outwards retrocession premium	**(81,607)**	(84,186)	(80,098)	(37,440)	-
Net expense ratio	**14.56%**	20.49%	26.89%	8.10%	-
Gross expense ratio	**4.59%**	4.62%	6.45%	5.19%	4.55%
Cash and cash equivalents	**8,299**	14,660	41,668	37,467	42,909
Investments	**757,363**	665,648	576,334	529,938	433,000
Reserve for claims	**338,400**	665,846	604,460	551,189	456,644

In summary the Australian Reinsurance Pool Corporation's (ARPC) financial performance and achievements for 2012 are:

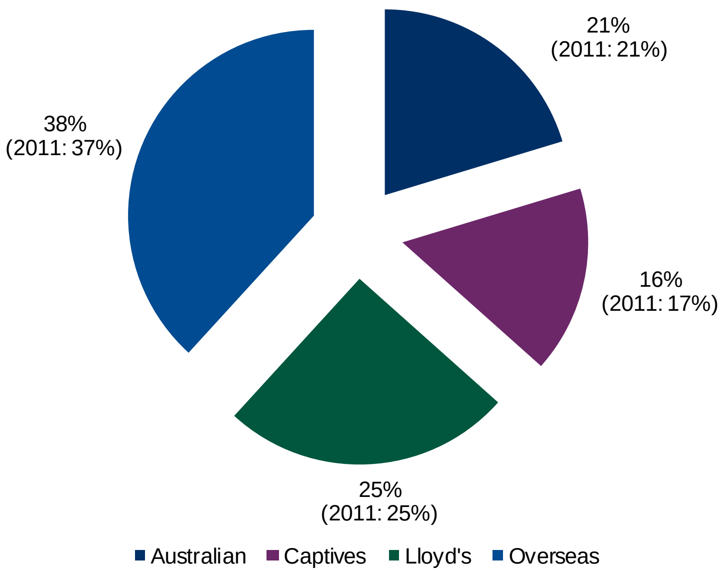
- ARPC's number of active treaties is 246 (2011:248)
- the gross written premium (GWP) result of $124.709 million (2011: $112.555 million) is consistent with increases in primary insurance premiums across the Australian market
- ARPC renewed its retrocession program on 1 January 2012. The costs for the 2011-12 financial year decreased to $81.607 million (2011: $84.186 million) while the cover remained constant at $2.76 billion
- investment income increased to $40.886 million (2011: $36.180 million) despite a period of rapidly falling interest rates and a very low risk investment profile
- the net expense ratio has reduced over the past three years from 26.89 per cent in 2010 to 14.56 per cent in 2012 (2011: 20.49 per cent). The reduction over this period is the result of two main contributors: the reduction in the cost of the retrocession program along with the increase in GWP
- the gross expense ratio of 4.59 per cent (2011: 4.62 per cent) is stable and demonstrates the stability of costs in operating the scheme

- the reserve for claims now stands at $338.400 million (2011: $665.846 millon) as a result of taking up in the balance sheet the present value of the future stream of dividends to be paid to the government over the next 4 years. The total dividends to be paid amount to $400.000 million. The reserve for claims is supplemented by the government guarantee of $10 billion along with the retrocession cover of $2.76 billion.

Active treaties

ARPC's active treaties decreased during 2011-12 to 246 (2011:248). The percentage split between each of the categories is outlined in chart 2.1.

Chart 2.1: Active treaties



Australian cedants represent 20 per cent of the total active treaties and yet continue to represent 87 per cent of the premium received. This has been a consistent outcome over the years of ARPC's operations.

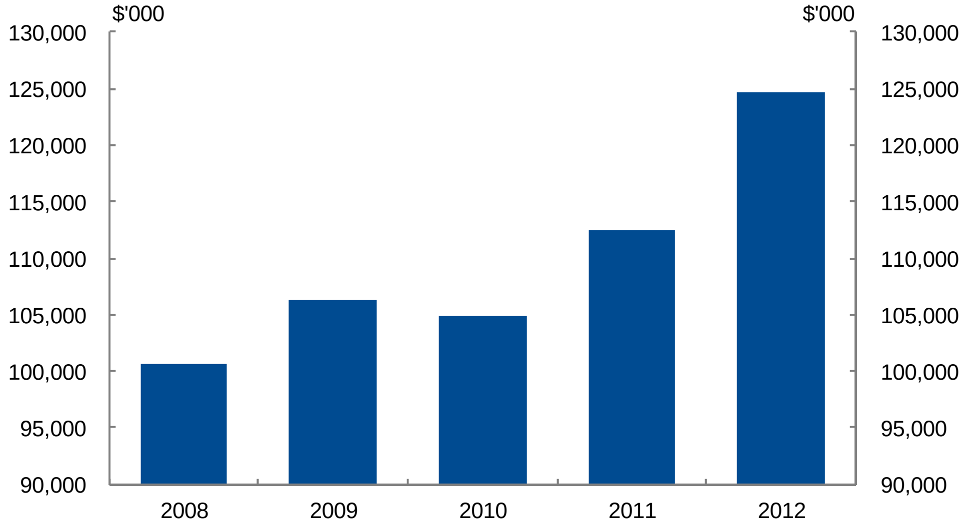
Gross written premium

ARPC's GWP result for 2011-12 is $124.709 million which is an increase of 10.80 per cent over the 2011 result of $112.555 million.

The movement in GWP is mainly a function of two factors over which ARPC has no influence. The first is market activity with regard to asset developments and their associated business risks. Assets are continuously coming on line or being decommissioned. The second is the movement of primary insurance rate premiums in the insurance cycle. Due to fluid competitive market forces insurance premium rates tend to move up or down over a period known as a cycle.

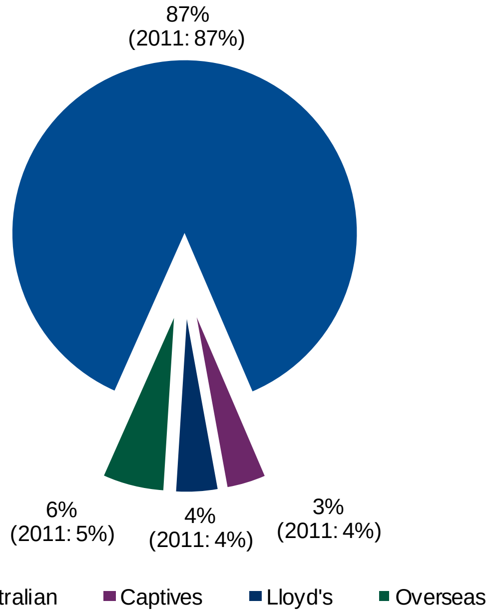
During the 2011-12 year the major influence on GWP for ARPC was the increase in premiums charged by primary insurers. The increases resulted from a reassessment by the primary insurers of exposures to principal risks resulting from a recent period of significant natural disasters within Australia.

Chart 2.2: Gross written premium



ARPC continually monitors and analyses clients' quarterly premium returns to detect underlying trends. This information is then utilised to inform judgements on budget and forecast expectations.

Chart 2.3: Gross written premium by cedant type



Tables 2.2, 2.3 and 2.4 provide information on the submitted premium by tier, state and business class.

Table 2.2: Gross written premium by tier

	Actual				
	2012	2011	2010	2009	2008
	%	%	%	%	%
Tier A	**19%**	19%	19%	21%	21%
Tier B	**55%**	56%	57%	54%	56%
Tier C	**26%**	25%	24%	25%	23%
Total GWP $ '000	**124,709**	112,555	104,885	106,270	100,659

The premium split by tier highlights the trend over the last five years. The minor movements for 2011-12 are the 1 per cent reduction in tier B to 55 per cent and the 1 per cent increase in tier C to 26 per cent. Otherwise GWP by tier has been very stable for the last three years.

Table 2.3: Gross written premium by state

	Actual				
	2012	2011	2010	2009	2008
	$'000	$'000	$'000	$'000	$'000
NSW	**32%**	31%	31%	31%	34%
SA	**8%**	9%	9%	8%	8%
VIC	**21%**	23%	22%	22%	23%
TAS	**2%**	2%	2%	1%	2%
QLD	**22%**	20%	21%	22%	20%
NT	**1%**	1%	1%	1%	1%
WA	**13%**	13%	13%	13%	12%
ACT	**1%**	1%	1%	1%	1%
Total GWP	**124,709**	112,555	104,885	106,270	100,659
Cumulative total	**802,812**	678,103	565,548	460,663	354,393

Table 2.3 reveals a very stable outcome across the states between 2011 and 2012.

Table 2.4: Gross written premium by business class

	Actual				
	2012	2011	2010	2009	2008
	$'000	$'000	$'000	$'000	$'000
Fire/ISR/BI	**80%**	80%	81%	78%	77%
Contract works	**9%**	9%	7%	10%	10%
Burglary	**5%**	5%	5%	5%	6%
Miscellaneous accident	**2%**	2%	3%	3%	3%
Mobile plant	**3%**	3%	3%	3%	2%
Glass	**1%**	1%	1%	1%	2%
Farm*	**0%**	0%	0%	0%	0%
Total GWP	**124,709**	112,555	104,885	106,270	100,659
Cumulative total	**802,812**	678,103	565,548	460,663	354,393

* Farm cover accounts for 0.02 per cent of GWP. This figure has been rounded down for the purposes of this table.

The premium split by business class highlights that all classes have remained stable between years.

Investment assets

ARPC manages its investments within a conservative framework. ARPC internally manages its cash deposits, while external fund managers have been appointed to manage the balance of the pool funds in the Australian government bond market.

ARPC's objectives are to ensure that:

(a) the pool capital is maintained intact

(b) funds are available at short notice

(c) the fund is providing a rate of return acceptable to the Members.

The planned benchmark return for ARPC is the Reserve Bank of Australia (RBA) official cash rate plus 0.5 per cent for internally managed cash deposits; and the UBSW three-year to five-year Australian Government bond index for funds managed by external fund managers.

The investment strategy complies with the *Commonwealth Authorities and Companies Act 1997* (CAC Act) and all investments are held in ARPC's name.

ARPC's cash investments are held with Australian financial institutions with an A category Standard and Poor's (S&P) credit rating. ARPC holds other investments in the form of Australian Government and semi-Government bonds with S&P credit ratings of AA+ and AAA.

Chart 2.4: Investments by credit rating 2012

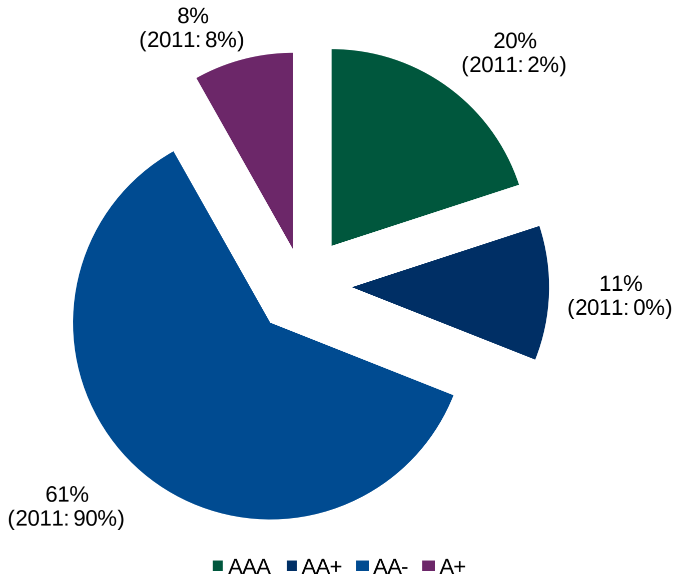


Table 2.5 provides a breakdown of ARPC's cash and investment balances as at 30 June 2012.

Table 2.5: Cash and investment balances as at 30 June 2012

	2012 $'000	2011 $'000
Internally managed		
Cash at bank	**1,055**	2,763
Fixed Interest Deposits	**433,500**	367,000
Total internally managed cash and investments	**434,555**	369,763
External fund managers		
Cash at bank	**7,244**	11,897
Fixed Interest Deposits	**87,500**	285,500
Government (guaranteed) securities	**236,363**	13,148
Total external fund manager cash and investments	**331,107**	310,545
Total cash and investments	**765,662**	680,308

Investment income

The investment income return for 2011-12 is an excellent result given the low interest rate environment experienced for most of the financial year.

The official cash rate was at 3.50 per cent at 30 June 2012 compared to 4.75 per cent for the same time last year. The Australian Government three-year and five-year bonds traded at record lows while the 10 year bond rate traded down to 2.64 per cent which is the lowest yield since Federation. ARPC believes that this signals a protracted low interest rate environment and subsequently lower yield returns on the investment pool in the near future.

Table 2.6 provides a breakdown between internally and externally generated investment incomes as at 30 June 2012. ARPC manages the interest rate yields through actively supervising the duration of its portfolio: internally by management and externally through professional fund managers. Through this ARPC optimises the return on funds while minimising the risk.

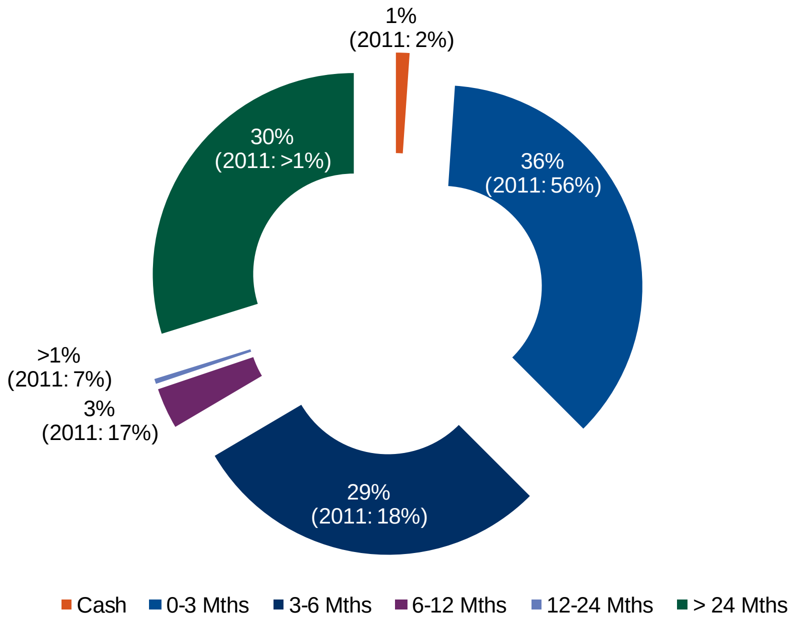
The maturity spreads on the internally managed cash portfolio contributed to ARPC achieving an average return for the 2011-12 year of 5.94 per cent.

At the same time the externally managed bond portfolios increased in value by 7.24 per cent.

Table 2.6: Investment income for the period ended 30 June 2012

	2012 $'000	2011 $'000
Internally managed		
Cash at bank	**318**	1,319
Fixed interest deposits	**23,436**	18,119
Total internally managed income	**23,754**	19,438
External fund managers		
Cash at bank	**563**	377
Fixed Interest Deposits	**9,181**	15,212
Government (guaranteed) securities	**7,388**	1,153
Total external fund managers income	**17,132**	16,742
Total cash and investments	**40,886**	36,180

Chart 2.5: Funds held at 30 June 2012 by maturity



Expenses

ARPC's net expense ratio for 2011-12 has reduced to 14.56 per cent (2011: 20.49 per cent) due to an increase in net premium revenue.

ARPC's gross expense ratio (which excludes the retrocession program) is 4.59 per cent (2011: 4.62 per cent).

The movement in the expense ratios are mainly attributable to:

- the reduction in the cost of the retrocession program
- the increase in gross written premium consequently giving an increase in the net premium revenue.

ARPC will continue to ensure it receives value for money from all service providers and that ARPC is in a position to meet its statutory obligations.

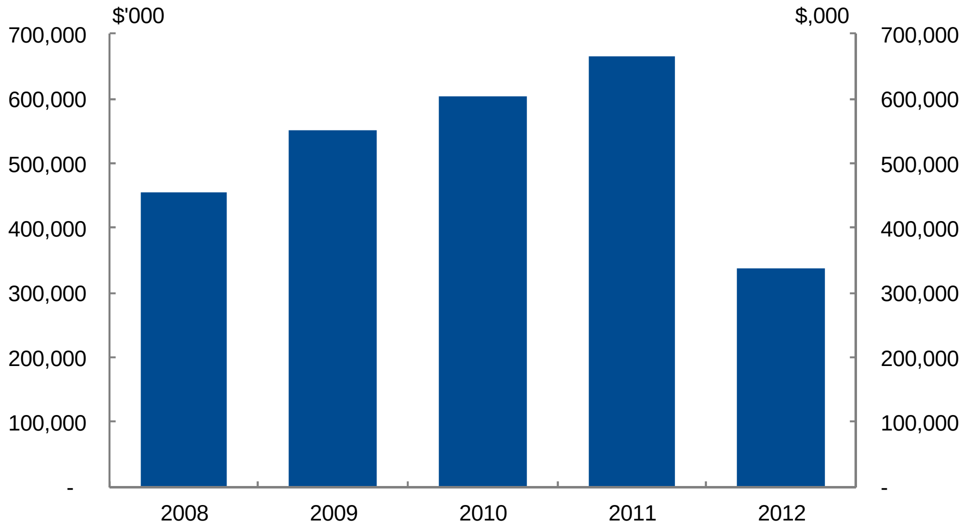
Reserves

Total equity is $360.192 million (2011: $665.846 million) after allowing for the first ever dividend payment stream to government over the next four years. The resulting reserve for claims is $338.400 million (2011: $665.846 million) and will grow while there are no declared terrorist incidents (DTI). This reserve is supplemented by the $2.76 billion retrocession program and the $10 billion Commonwealth guarantee.

During 2012 ARPC established a claims handling reserve of $21.732 million. The purpose of this reserve is to ensure there are sufficient monies set aside to allow

ARPC to continue to operate in order to finalise any claims and reinsurance recoveries following cessation of the scheme or a significant DTI. The claims handling reserve is set annually by the Board of ARPC.

Chart 2.6: Reserve for claims



ARPC takes a conservative approach in its management of the pool and only invests in Australian government and semi-government securities and cash.

Influences on future performance

The reinsurance premiums collected by ARPC are a function of not only the underlying premiums charged by its cedants but also the economic development of assets. Any softening of those underlying premiums, along with the addition or decommissioning of assets, will directly affect ARPC's premium income. While interest rates have an effect on investment income, revenue is otherwise linked to primary insurance rates over which ARPC has no control.

The 2012 review of the scheme recommended that ARPC's current pricing policy remain unchanged. In the absence of any material claim the current rates of premium charged by ARPC are unlikely to change and the scheme will continue to have surpluses for the foreseeable future.

ARPC is expecting interest rates to soften over the next 12 months, which will have an effect on investment revenue. However, this will not affect ARPC's capacity to pay claims in the event of a DTI.

Mixed use buildings which are not predominantly for commercial use still remain unable to obtain terrorism cover. ARPC will begin to examine increasing the scope of the scheme to include mixed use buildings. This will in turn increase the premiums payable to ARPC and the scheme by approximately 2 per cent in asset values insured.

The 2012 review of the scheme recommended that the next review should reassess the continuing need for, and cost benefit of, ARPC's retrocession program in relation to the capacity of the scheme. The 2015 review will consider the size of the scheme and how risk is financed, in particular the use of retrocession from the markets. This may have some impact on the scheme depending on the results of the next review.

A payment of a $175 million dividend is to be made to the government in January 2013. This is to be followed by three annual dividend payments of $75 million each.

The first dividend payment of $175 million will reduce funds available for investment which combined with the low interest rates currently being experienced will lead to an anticipated reduction in earnings on investments of around $10 million in the 2012-13 year.

Retrocession

Placement

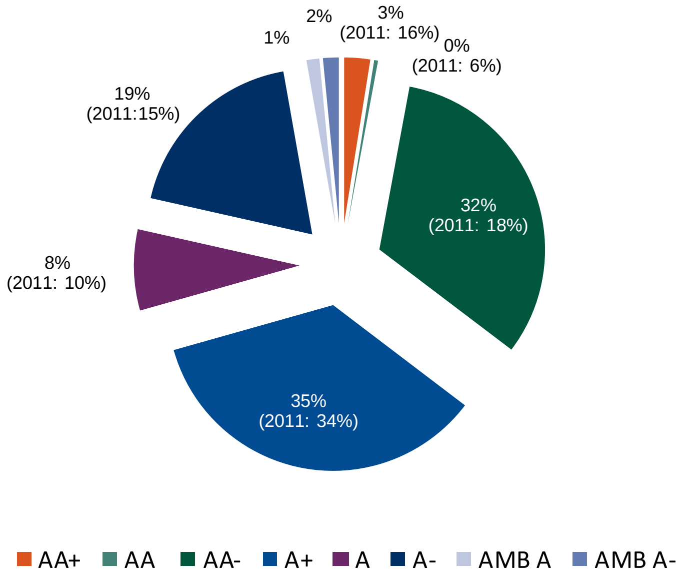
The 2006 review gave ARPC the discretion, once the pool had reached $300 million, to determine whether to use premiums to build the pool further, purchase retrocession for the scheme or undertake a combination of the two. In 2008, ARPC engaged the services of Guy Carpenter & Company Pty Ltd to investigate the availability of retrocession coverage for the pool, and to determine capacity and pricing. ARPC first purchased retrocession for the 2009 calendar year.

There are 46 participants in the retrocession program which is supported by the Australian, Lloyds, European, Bermudan, USA and Asian markets. The size of the program has been increased and renewed for each calendar year since 2009.

The wide spread of participants in the program reduces the risk to ARPC in the event of default by any one of the participants. Additionally, program participants must have an S&P rating of A- (or equivalent) or better. A downgrade clause in the retrocession contract gives ARPC the right to reassess its position if a retrocessionaire suffers a rating downgrade. Guy Carpenter actively monitors the financial stability of ARPC's retrocession counterparties and advises ARPC of any concerns.

These measures assist in protecting the financial stability of the retrocession program and, therefore, of the scheme overall.

Chart 2.7: Retrocession program counterparty credit rating 2012



All ratings are Standard & Poor's except AMB A and AMB- (A.M. Best) and were not included last year.

Structure

The first layer of the scheme comprises the policy holder's liability for some risk through a possible excess or deductible. The second layer of the scheme is the industry retention of up to $100 million. The third layer of the scheme is the deductible under the retrocession program funded by the $375 million of ARPC's reserve for claims, which would be supplemented by the Commonwealth guarantee if needed. The 2012 retrocession program of $2.76 billion (2011: $2.75 billion) was placed in five layers in excess of $375 million (2011: $350 million). Layers 1 to 3 of the retrocession program are co-reinsured by ARPC and losses will be met by any available funds from the pool supplemented by the Commonwealth guarantee.

Financial impact

Retrocession expense is recognised using the 365th method with the expense incurred for the 12 months to 30 June 2012 totalling $81.607 million (2011: $84.186 million). The total retrocession commission income recognised by ARPC was $7.705 million (2011: $8.004 million). The reduction in cost of the retrocession was achieved by increasing the program deductible and introducing co-reinsurance where ARPC and the Commonwealth guarantee retain a share of the retrocession.

Benefits

ARPC's retrocession program:

- encourages the return of the commercial terrorism insurance and reinsurance market for Australian risks
- increases the overall capacity of the scheme
- places the Commonwealth further from the risk of terrorism losses under the scheme
- reduces the likelihood that a reduction percentage will be required.

Future of the program

The *Terrorism Insurance Act Review: 2012* recommended that an assessment of the appropriate capacity of the scheme should be undertaken as part of the next review of the TI Act, which must be completed by 30 June 2015. That review will also reassess the continuing need for, and cost benefit of, ARPC's retrocession program.

Please refer to Part 1 of this report for details of the 2012 review.

Exposure risk management

A key expectation of government is that ARPC should seek to be in a position to advise the responsible Minister of the likely costs to the scheme in the event of a DTI. This estimate will then inform the calculation of an appropriate reduction percentage.

When ARPC first entered the terrorism reinsurance market in July 2003, it did not have the ability to estimate losses from a potential terrorist attack. To address this issue ARPC implemented a strategy to enable it to develop the capability to analyse aggregate exposure information, estimate its probable losses in the event of a DTI and provide credible advice to the responsible Minister on an appropriate reduction percentage.

Retrocession and risk

Terrorism is notoriously difficult to price because of the low frequency of events and the fact that there is human intervention in any terrorist incident.

Retrocessionaires will only offer meaningful capacity if they are able to price the risk and quantify their probable maximum loss. Our exposure risk management work enables us to leverage the capacity and price of our retrocession program.

Retrocessionaires are given detailed underwriting information demonstrating the depth of our understanding of our portfolio of risks. The level of commitment we show in modelling our exposures gives them confidence in us. This enables retrocessionaires to understand their potential exposures and to price the risk and offer sufficient capacity to the program.

Aggregate exposure reports

ARPC's reinsurance agreement requires each cedant to provide an annual aggregate report. The report summarises the cedant's aggregate exposure amounts at postcode level. The information is uploaded by cedants directly into ARPC's website which enables ARPC to analyse the distribution of exposure risk across Australia. The analysis includes the ability to report aggregate exposures.

Charts 2.8 and 2.9 provide an overview of ARPC's total exposure for 2012 based on information provided by clients.

Chart 2.8: Aggregate exposure by tier as at 30 June 2012

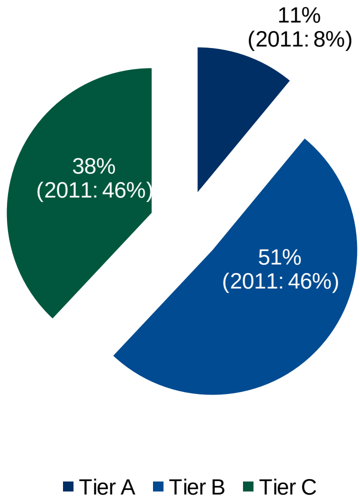
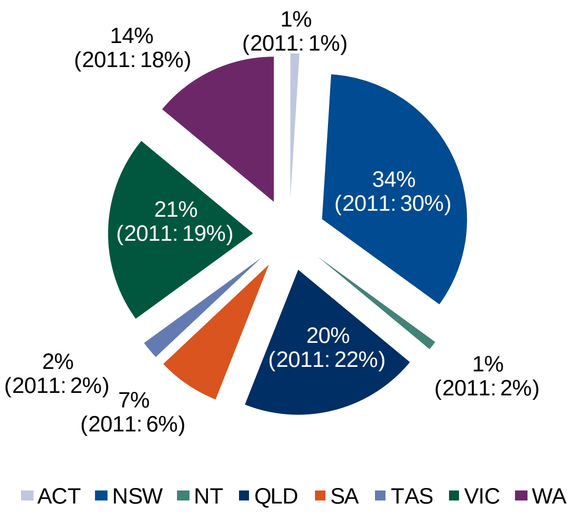


Chart 2.9: Aggregate exposure by state as at 30 June 2012



The exposure report by state allows ARPC to check the correlation between state exposures and collected premiums and the relative size of assets in each state.

Loss estimation modelling

Development of ARPC's loss estimation capabilities

The aggregate exposure information received from clients allows ARPC to analyse its exposures at a postcode level. ARPC considered that, to meet the Government's expectations, it required a more robust exposure modelling capability. It began by requesting street level information from clients and worked with internal and external resources to map that information into a loss estimation model. Risk Frontiers of Macquarie University was engaged in 2006-07 to assist in further enhancing ARPC's loss estimation capabilities.

The concept of the loss estimation model is to accurately position exposure information by street address. The model also has the ability to customise blast footprints to match actual damage reports. The model enables ARPC to estimate losses from conventional terrorist attacks in all tier A locations. Loss estimates are split between buildings, contents, business interruption and public liability.

Attorney-General's Department

In 2008 ARPC requested the Attorney-General's Department (AGD) to undertake a major review of ARPC's loss estimation model. This review was undertaken through AGD's Critical Infrastructure Protection Modelling and Analysis (CIPMA) program, with GA as the technical provider.

In 2009 ARPC entered into a contract with AGD to undertake a three year development program to improve ARPC's loss estimation capabilities. The development program is designed to enhance both the current model and develop a more rigorous underpinning modelling capacity. The program also includes modelling for losses arising from chemical and biological incidents. This work draws on a number of contributions from Australian Government agencies.

The CIPMA project is in its final year with GA expected to complete development of the blast and plume models by late 2012. Work to date has focused on engineering surveys and the development of blast, plume and ventilation schema and modelling frameworks. The three year program and progress is summarised below.

Three dimensional blast model

The three dimensional blast model is intended to accurately analyse pressure waves and resulting damage from blasts in most tier A locations. This model is being built by GA and was due to be completed by 30 June 2012. However, resourcing issues in GA delayed the completion and it is now due to be delivered in October 2012.

Plume report

AGD has also managed a project to report on the potential damage from the release of a biological or chemical agent within tier A locations. This project draws on the expertise of several government agencies including GA, Bureau of Meteorology, Defence Science and Technology Organisation and the Australian Federal Police as well as external consultants. The report, delivered in July 2012, will improve ARPC's understanding of this type of event and may establish the basis for the development of a biological and chemical loss estimation model.

The outcomes from the plume report will be useful when the capacity of the scheme is being considered in the context of the 2012 review.

Regional loss estimation report

ARPC engaged AGD to analyse losses from upstream and downstream business interruption caused by damage to assets located in regional Australia. The work comprises a threat assessment of major regional infrastructure based on the inter-dependencies of industries relying on that infrastructure and the economic loss that would result from removal of services.

ARPC is investigating the link between the economic loss estimated in the AGD report and what the potential insured losses might be. This will give ARPC the capacity to estimate probable losses to the scheme from an event involving infrastructure in regional Australia.

Again, this work will be of assistance when the capacity of the scheme is being considered during the 2015 review.

SIGNIFICANT EVENTS

Dividend payment

The payment of a $175 million dividend is to be made to the Commonwealth in January 2013. This is to be followed by three annual dividend payments of $75 million each resulting in a total dividend payment of $400 million to be made over a four year period. These payments are shown as current and non-current dividends at their present value in the balance sheet in Part 5.

The initial dividend payment will be made from existing reserves with subsequent payments funded from planned operating surpluses.

The Ministerial direction in relation to payments to the Commonwealth is discussed in Part 3.

Other events

There have been no other developments since the end of the 2011-12 financial year which have significantly affected or may significantly affect:

- ARPC's operations in future financial years
- the results of those operations in future financial years
- ARPC's state of affairs in future financial years.

Part Three

Governance and Accountability

PART 3: GOVERNANCE AND ACCOUNTABILITY

GOVERNANCE

Members

The Australian Reinsurance Pool Corporation (ARPC) has a part time non-executive Chair and up to six other part time non-executive Members. All Members are appointed by the Minister.

Following are the Members who held office at the date of this report, and during the period covered by this report.

Mr Joseph Gersh AM, Chair

Qualifications: B.Com. LLB (Hons)

Appointments: first appointed on 1 July 2003. Current term expires on 31 December 2012.

Mr Gersh has extensive experience in law and commerce, and was a senior partner with Arnold Bloch Leibler from 1982 until his retirement from that position in 1999. He is the Executive Chairman of Gersh Investment Partners Ltd and currently has a range of directorships, including the Payments System Board of the Reserve Bank of Australia.

Ms Patricia Azarias

Qualifications: BA (Hons), MA, MPA

Appointments: first appointed on 22 April 2008. Current term expires on 24 April 2014.

Ms Azarias is an economist with expertise in infrastructure planning and financing, financial management and corporate governance. Recent positions held by Ms Azarias include Regional General Manager, Business and Organisation Performance at the National Australia Bank, and Director, Internal Audit Division, United Nations. She has also held senior positions in the NSW Premier's Department and NSW Department of Transport. Ms Azarias is a non-executive director on the Special Broadcasting Service (SBS) Board, Chair of the Audit and Risk Committee of SBS, Co-Chair of the Risk and Audit Committee of the NSW

Director of Public Prosecutions, and is the Deputy Chair of the NSW Community Relations Commission.

Ms Azarias is a member of the Audit and Compliance Committee.

Ms Jan Bowe

Qualifications: MBA, BHA, GAICD

Appointments: first appointed on 1 July 2009. Current term expires on 30 June 2015.

Ms Bowe has held senior positions in the financial services sector in both insurance and banking. She has a strong background in general management and has held a number of senior roles in Suncorp Metway, the Commonwealth Bank and Rio Tinto. Ms Bowe currently combines her role as a strategy consultant with a portfolio of Board non-executive director appointments including QT Mutual Bank and Combined Dispensaries Friendly Society.

Ms Bowe was appointed as a member of the Audit and Compliance Committee on 24 April 2012.

Mr Tom Karp

Qualifications: BA Hons, FIAA

Appointments: first appointed on 29 August 2008. Mr Karp's term expired 28 February 2012. He was reappointed on 1 July 2012. Current term expires on 30 June 2015.

Mr Karp is an actuary and, in June 2008, retired as the Executive General Manager, Supervisory Support, at the Australian Prudential Regulation Authority (APRA). Prior to joining APRA, Mr Karp was with the Insurance and Superannuation Commission and was heavily involved in establishing APRA and its initial infrastructure. From 1999 to 2007 he was active as a senior member of the International Association of Insurance Supervisors. Mr Karp is a member of the Institute of Actuaries of Australia's Professional Standards Committee and represents the Institute at the International Actuarial Association.

Ms Marian Micalizzi

Qualifications: B Bus (Acctcy), FCA, MAICD

Appointments: first appointed on 1 July 2003. Current term expires on 30 June 2015.

Ms Micalizzi is a chartered accountant with over 20 years experience, a company director and a consultant in both the public and private sector. She is a former partner of PricewaterhouseCoopers (until 2000) having been admitted as a partner of the predecessor firm in 1986. Ms Micalizzi is a member of the Queensland Treasury Corporation Capital Markets Board, Public Service Commission Queensland, the Corporations and Markets Advisory Committee, SunSuper Audit Committee and Cancer Council Queensland Management and Finance Committee. She is also a governor of the World Wildlife Fund (WWF) Australia.

Ms Micalizzi is the chair of the Audit and Compliance Committee.

Mr James Murphy PSM

Qualifications: BA (Econ/History), LLB, MPubLaw

Appointments: first appointed on 1 July 2003. Current term expires on 24 April 2014.

Mr Murphy is the Executive Director, Markets Group in the Treasury. He has extensive experience in the Commonwealth Government. He was awarded a Public Service Medal in 2011.

Mr Murphy is a member of the Audit and Compliance Committee.

Mr Geoffrey Vogt RFD

Qualifications: B Ec, FAICD, FCSA, FCIS, SF Fin, ANZIIF (Assoc) CIP, CPA, CTP (sen)

Appointments: first appointed on 29 August 2005. Mr Vogt's term expired on 28 February 2012.

Mr Vogt has extensive experience in the financial services and insurance industries. He is the inaugural CEO of the Industry Leaders Fund, a private sector fully funded body which provides up to $50,000 for traineeships for potential leaders of industry. He was previously CEO of the Motor Accident Commission in South Australia, a statutory authority which has responsibility for the monopoly compulsory third party insurance scheme in that State.

Mr Vogt is a director on a number of boards; a member of CPA Australia; an Associate of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF); a Fellow of the Australian Institute of Company Directors; a Fellow of Chartered Secretaries Australia and a Senior Fellow of the Financial Services Institute of Australasia.

Mr Vogt was a member of the Audit and Compliance Committee.

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

(b) is of good character.

Members remuneration is set by the Remuneration Tribunal.

Meetings of Members

There were six meetings of Members held during 2011-12. The table below sets out the number of meetings attended by each Member.

COMMITTEES

ARPC 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. The terms of reference of each committee are reviewed annually.

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

(b) provide a forum for communication between Members, the senior management of ARPC, the internal auditor and the Australian National Audit Office (ANAO).

In fulfilling its responsibilities the Committee reviewed and approved the internal audit plan, reviewed all reports received from the internal auditor, monitored the implementation of internal audit recommendations, reviewed and accepted the terms of engagement of

ANAO and reviewed the financial statements to assist the Board in making the statements required by the FMO.

The members of the committee who held office at the date of this report and during the period covered by this report are:

Ms Marian Micalizzi (Chair)

Ms Patricia Azarias

Mr James Murphy

Ms Jan Bowe (from 24 April 2012)

Mr Geoffrey Vogt (until 28 February 2012).

There were four meetings of the committee held during 2011-12. The table below sets out the number of meetings attended by each committee member.

Risk Committee

The purpose of the committee is to:

(a) review and endorse ARPC's risk management framework to ensure that appropriate strategies are in place for identification, assessment and mitigation of risk

(b) identify and understand the risks faced by ARPC in meeting its goals

(c) ensure that management monitors the effectiveness of the risk management and control system

(d) encourage the adoption of an effective risk management culture within ARPC.

In fulfilling its responsibilities, the Committee oversaw the review of ARPC's risk management framework including the realignment of the risk register with key business processes.

The Members consider that risk is a matter for the Board as a whole. The Risk Committee has been established to ensure that sufficient rigour and focus is afforded the consideration of risk rather than simply being an agenda item at a meeting of Members. All Members are members of the Risk Committee. The Risk Committee is responsible to review at least annually ARPC's risk management strategy.

There were two meetings of the committee held during 2011-12. The table below sets out the number of meetings attended by each committee member.

Table 3.1: Number of meetings attended by each Member of the Board

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Joseph Gersh AM	6	6
Ms Patricia Azarias	6	5
Ms Jan Bowe	6	5
Mr Tom Karp	4	4
Ms Marian Micalizzi	6	6
Mr James Murphy	6	5
Mr Geoffrey Vogt	4	4

Table 3.2: Number of meetings attended by each member of the Audit and Compliance Committee

Name	Number of meetings entitled to attend	Number of meetings attended
Ms Patricia Azarias	7	6
Ms Jan Bowe	2	2
Ms Marian Micalizzi	7	7
Mr James Murphy	7	6
Mr Geoffrey Vogt	4	4

Table 3.3: Number of meetings attended by each member of the Risk Committee

Name	Number of meetings entitled to attend	Number of meetings attended
Mr Joseph Gersh AM	2	2
Ms Patricia Azarias	2	2
Ms Jan Bowe	2	1
Mr Tom Karp	1	1
Ms Marian Micalizzi	2	2
Mr James Murphy	2	2
Mr Geoffrey Vogt	1	1

CORPORATE GOVERNANCE PRACTICES

ARPC is committed to maintaining a high standard of corporate governance in line with recognised best practice. ARPC continues to monitor corporate governance trends from a range of sources across government and the private sector, including: APRA, the Australian Securities and Investment Commission (ASIC), the Australian Stock Exchange (ASX) and ANAO. ARPC is not regulated by APRA but considers APRA's standards for general insurers as an appropriate benchmark for measuring its organisational practices.

ARPC has documented its corporate governance framework in a Board charter, the terms of reference of its committees and the delegations to the CEO.

ARPC formally recognises the ASX's corporate governance principles in delivering sound corporate governance practice across the organisation.

Principle 1 — Lay solid foundations for management and oversight.

- The roles and responsibilities of Members have been documented in a Board charter.
- The delegation of powers and functions to the CEO has been documented in a delegation authority.
- Under the Board charter certain matters are reserved for Members.
- The Board charter and delegations document are periodically reviewed by Members.

- The CEO has designed and implemented objective measures against which he evaluates the performance of senior executives. The Board has designed and implemented objective measures against which it evaluates the performance of the CEO. Performance evaluations of all executives are conducted annually.

- Performance assessments of all executives were conducted in 2011-12 in accordance with the processes outlined above.

Principle 2 — Structure the board to add value.

- All Members are independent.

- The Chair is an independent Member.

- Different individuals exercise the roles of Chair and CEO.

- A nominations committee is not appropriate because the TI Act provides that Members are appointed by the responsible Minister.

- The performance of Members, the Board and Committees is reviewed annually against measures developed by the Board in consultation with corporate governance.

Principle 3 — Promote ethical and responsible decision making.

- The Members have adopted a code of conduct that is documented in the Board charter.

- Employees are bound by ARPC's code of conduct and values, which have been formally documented.

- ARPC's fraud control plan gives guidance on the responsibility and accountability of employees for reporting and investigating allegations of unethical practices.

- ARPC is committed to principles of diversity and several senior management and Board appointments are held by women.

Principle 4 — Safeguard integrity in financial reporting.

- The CEO and CFO state in writing to the Members that the financial reports present a true and fair view, in all material respects, of ARPC's financial condition and operational results and are in accordance with relevant accounting standards.

- An Audit and Compliance Committee has been established.

- The members of the Audit and Compliance Committee are all independent Members.

- The Chair of the Audit and Compliance Committee is an independent Member who is not the Chair of the Board.

- The Audit and Compliance Committee has formal terms of reference, which include a requirement for there to be at least three committee members.

Principle 5 — Make timely and balanced disclosure.

- Media releases, announcements and ARPC's annual report are available on its website.

- Management and accountability information is included in ARPC's annual report, which is provided to the responsible Minister and tabled in both Houses of Parliament in accordance with the provisions of the CAC Act.

Principle 6 — Respect the rights of shareholders.

- ARPC does not have shareholders. However, it maintains open communications with its stakeholders (cedants, industry associations and government). ARPC's corporate newsletter, review reports and latest news items are available on its website.

- ARPC regularly consults those with an interest in its operations, including industry associations, government agencies and cedants.

Principle 7 — Recognise and manage risk.

- ARPC has documented its risk management policy and strategy.

- ARPC has identified, assessed and documented its risks and has policies in place to mitigate and manage those risks.

- A Risk Committee has been established.

- The CEO and the CFO state to the Members in writing that:

  - the statement given by them regarding the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Members

  - ARPC's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Principle 8 — Remunerate fairly and responsibly.

- Members remuneration is determined by the Remuneration Tribunal.

- Remuneration packages for employees are determined having regard to salaries payable for similar positions within the public and private sectors, and the outcomes of individual performance appraisals.

LEGAL AND LEGISLATIVE REQUIREMENTS

Right to legal advice

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.

Indemnities and insurance premiums

ARPC has entered into a deed of indemnity with each of its Members. The indemnity is consistent with the requirements of the CAC Act in relation to such indemnities.

For 2011-12, 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 $60,670.86 (2011: $60,715.28).

Judicial and administrative decisions and review

During the year ended 30 June 2012, 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.

MINISTER AND MINISTERIAL DIRECTIONS

Role of the responsible Minister

The Minister responsible for ARPC is the Minister for Financial Services and Superannuation, the Hon Bill Shorten MP. The Minister appoints ARPC's Members.

Members will continue to report formally to the Minister through their annual report of operations.

Ministerial directions

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.

During the year ended 30 June 2012 the Minister issued a new direction to ARPC in respect of payments to be made by ARPC to the Commonwealth. The direction commenced on the day it was made (21 June 2012).

The written direction in respect of premiums given by the Minister during 2010-11, which was effective from 1 July 2011, remains in force.

The written direction in respect of the risk to be retained by reinsureds given by the Minister during 2006-07, which was effective from 1 July 2007, remains in force.

The directions and their effect are set out below.

- A direction in respect of payments to the Commonwealth.

  The effect of this direction is to provide for the quantum and timing of payments which are to be made by ARPC to the Commonwealth. The payment schedule is:

  - a one-off payment of $100 million to be made in January 2013
  - a payment of $75 million to be made in January 2013
  - a payment of $75 million to be made in January 2014
  - a payment of $75 million to be made in January 2015
  - a payment of $75 million to be made in January 2016.

- 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 premium written by the reinsured that is attributable to the eligible insurance contract according to the postcode tier in which the eligible property is situated. The direction also instructs ARPC to charge reinsurance premiums on only those sections of a bundled insurance policy that exclude terrorism risks.

- A direction in respect of the risk to be retained by reinsureds.

  The effect of this direction is that for all declared terrorist incidents (DTI) which occur during the same financial year, the risk to be retained by a reinsured is an amount equal to the lesser of the default figure, 4 per cent of the gross fire/industrial special risks premium revenue or the minimum retention. If all retentions in respect of a single DTI would otherwise exceed the maximum industry retention, the retentions will be reduced proportionately. The effect of this reduction is to limit the retention for all reinsureds in relation to a single DTI to the maximum industry retention.

  The default figure for the period 1 July 2011 to 30 June 2012 was $10 million.

  The minimum retention is set at $100,000.

  The maximum industry retention for the period 1 July 2011 to 30 June 2012 was $100 million.

ARPC has not been notified of any General Policy Orders that are to apply to ARPC.

Risk management

2011-12 has been a year of consolidation for ARPC's risk management framework following a major review and significant improvement in 2010-11.

ARPC risks and controls are regularly reviewed, updated and reported to both management and the Risk Committee. ARPC continues to use Risk 360 software to capture and report on risks and controls.

Internal audit

Ernst & Young continued to provide internal audit services to ARPC under a three year contract running from 1 July 2009 to 30 June 2012. The internal audit plan is developed by Ernst & Young in consultation with ARPC management and is approved by the Audit and Compliance Committee.

2011-12 program

The following reviews were conducted in 2011-12:

(a) A refresh of the 2010-11 assurance mapping work was undertaken to align the ARPC assurance map with ARPC's risk register and to map a strategic internal audit plan up to 2013-14.

(b) A detailed examination of the Littlewoods external service provider processes was conducted as a precursor to the insourcing of the accounts receivable function.

(c) The cedant review program, whereby ARPC visits all major cedants on a two-year cycle, was assessed for efficacy and performance.

(d) A fraud risk assessment was conducted from which a new fraud control plan was developed and communicated.

(e) IT security processes and controls around ARPC's RISe system were reviewed.

With Ernst & Young's contract coming to an end following seven years as the internal audit service provider, the Audit and Compliance Committee decided that it was timely to change external providers. At the conclusion of the 2011-12 financial year, ARPC has communicated a request for quote to a number of potential providers and is assessing responses. ARPC aims to have a new internal audit service provider in place early in 2012-13.

2012-13 program

The internal audits planned for 2012-13 are:

(a) a review of ARPC's legal and regulatory compliance framework

(b) a review of ARPC's investment management process and systems

(c) a review of payroll processing including use of the Aurion HR system

(d) a post implementation review of insourced accounts receivable controls

(e) a review of key financial processing controls.

Business continuity

Insourcing of the premium receivables function from July 2012 is a significant change to ARPC processes. This function was previously undertaken by an external provider.

During 2012-13 management will:

- update ARPC's Business Continuity Plan (BCP) to address changes in business processes
- develop a schedule to test individual components of the BCP.

Treasury will be engaged to assist in the testing of RISe. The test will be designed with the assistance of Treasury IT and will be conducted at their offices.

Fraud prevention and control

In early 2012 a fraud risk assessment was conducted by Ernst & Young as part of the internal audit program.

Following this, ARPC refined its fraud control plan, aligning it with the framework promoted by the ANAO in its document *Elements of Better Practice Fraud Control 2011* and consistent with the *Commonwealth Fraud Control Guidelines 2011.*

The plan addresses how ARPC maintains an appropriate culture and demonstrates leadership. It also outlines policy, legislation and governance requirements and the four key fraud control strategies in place: prevention, detection, response and monitoring and reporting.

The plan clearly allocates responsibilities for fraud risk management and control between the Audit and Compliance Committee, the CEO, ARPC management and ARPC staff. It also sets specific actions to be completed in 2012-13 with assigned responsibilities and set target dates.

ARPC's CEO is satisfied that ARPC has:

- prepared fraud risk assessments and control plans
- appropriate fraud, prevention, detection, investigation and reporting processes in place which meet the needs of the organisation
- taken all reasonable measures to minimise the incidence of fraud.

CEDANT REVIEW PROGRAM

Background

ARPC's cedant review program was introduced in 2005. The objective is to assist clients to meet their obligations under the reinsurance agreement. This is achieved by assisting clients to make certain that they have processes in place to:

- accurately identify eligible insurance contracts
- accurately calculate premiums
- ensure that the correct premium is remitted to ARPC
- submit accurate aggregate exposure information
- process claims in the event of a DTI.

ARPC has found all clients to be extremely receptive, helpful and cooperative. In addition to ensuring that the obligations imposed by the reinsurance agreement are met, the program has enhanced the collegiate relationship between ARPC and its clients.

The cedant review program will remain active as it continues to prove its worth in many ways, for example:

- ARPC is in a position to advise clients on many issues to enable them to comply with the terms of the reinsurance agreement
- it contributes greatly to maintaining good relationships with clients
- it enables clients to provide feedback on various issues which, in turn, forms part of ARPC's input into the triennial review process.

Current situation

From 2005 to December 2011 ARPC retained the services of Pro Re Pty Ltd to assist in conducting the cedant reviews. As a result of the recruitment of a specialist internal auditor, ARPC now conducts the cedant reviews using in house resources.

Cedant visits

ARPC visit cedants on a regular basis. The following table details the number of cedants visits conducted over the past three years.

Table 3.4: Number of cedant reviews undertaken

Type of review	2011-12	2010-11	2009-10
Full reviews	14	20*	15
Follow up reviews	13	9	6

*includes Singapore captives

Trends

From the cedant reviews we have observed that the most common trends and issues are:

- postcode tables not being updated
- back calculating of gross written premium
- terrorism exclusion clauses which are ambiguous or could have unintended consequences.

FREEDOM OF INFORMATION

The Freedom of Information (FOI) *Act 19*82 provides the public with a general right of access to documents held by Australian Government agencies including ARPC.

Freedom of information requests

In the year to 30 June 2012, ARPC had not received any requests for information under the FOI Act.

Information Publication Scheme

From 1 May 2011, agencies subject to the FOI Act are required to publish information as part of the IPS.

ARPC has published the following information on its website:

- who it is
- what it does
- reports and responses to Parliament
- workplace policies and plans
- finances
- submissions to Parliament
- communications
- consultation arrangements
- routinely requested information and disclosure log.

This information is published on ARPC's IPS webpage at: http://www.arpc.gov.au/?/ips

Consultation arrangements

People and 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.

Freedom of information procedures and contact information

Any person seeking access to documents under the FOI Act must lodge a formal request in writing clearly identifying the document or class of document to which access is sought.

Requests should be addressed to:

Corporate Governance Manager
Australian Reinsurance Pool Corporation
GPO Box 3024
Canberra ACT 2601

Email: enquiries@arpc.gov.au

Fax: +61 2 6279 2100

For further information please contact ARPC on +61 2 6279 2111.

Ecologically sustainable development

ARPC implements strategies designed to minimise waste, conserve energy, minimise water usage and minimise its environmental footprint.

ARPC's premises in Canberra and Sydney both have a 4.5 star energy rating.

Table 3.5 demonstrates the steps taken by the building owners and by ARPC to assist in reducing our carbon footprint.

Table 3.5: Steps taken to minimise energy, waste and water consumption

Theme	Canberra office	Sydney office
Energy efficiency	Use of air-conditioning system which uses high efficiency pump and fan motors.	Lift generators have been replaced to decrease lift energy consumption.
	Use of high efficiency magnetic chillers. The chillers used to generate the building cooling are an innovative design with magnetic bearings rather than the conventional setup. This eliminates friction resulting in higher efficiency chillers.	Variable speed drive on pumps and fans to decrease heating ventilation air-conditioning (HVAC) energy consumption.
	The building has high performance double glazing.	Chiller plants have been upgraded.
	Use of sensor lighting in various offices.	Use of sensor lighting for after-hours activation.
	Use of low energy LED lighting.	Manual switch lighting during business hours.
	Shutting down computers outside of working hours.	Shutting down computers outside of working hours.
	Turning off non-essential lights and computers.	Turning off non-essential lights and computers.
	Purchasing and use of carbon neutral paper, which supports sustainable forest management in Australia and around the world.	Purchasing and use of carbon neutral paper, which supports sustainable forest management in Australia and around the world.
Waste	Utilising double sided printing to reduce the volume of paper used.	Utilising double sided printing to reduce the volume of paper used.
	Recycling of paper, cardboard, print cartridges, plastics, glass and fluorescence tubes.	Recycling of paper, cardboard, print cartridges, plastics, glass and fluorescence tubes.

Table 3.5: Steps taken to minimise energy, waste and water consumption (continued)

Theme	Canberra office	Sydney office
Water	Use of grey water harvesting and re-use system.	The building has been accredited with a 4.0 water rating.
	Use of high efficiency hydraulic fixtures. Water conservation within the building has been optimised via the use of highly efficient taps, shower heads and toilets.	

In the next 24 months ARPC will be examining the introduction of an electronic document management system. This move will assist in the reduction of the amount of paper used and stored within our offices.

PART FOUR

HUMAN RESOURCES AND COMMUNICATIONS

Part 4: Human resources and communications

Leadership and workforce

Executive team

The Australian Reinsurance Pool Corporation (ARPC) executive team is central to the proper and effective management and operation of ARPC.

Regular meetings provide for effective communication across ARPC. Project updates are provided and strategic issues are discussed.

David Matcham
Chief Executive Officer

David was appointed to the position of CEO of ARPC on 5 October 2010 for a period of three years.

David joined ARPC with over 30 years of experience in the insurance industry. He began his employment at Lumley in 1977 and worked in various positions across all business lines. He was appointed Managing Director in 1999 and CEO in 2003. He held that position until his retirement in 2009. David is currently the Chairman of the CREATE Foundation, the peak body which advocates for children in care. He is also a Director of Hollard Insurance. He previously held a position on the Board of the Insurance Council of Australia (ICA).

Laurence Daly
Chief Financial Officer

Laurence is the CFO and is responsible for the Corporate Services area. This includes finance, investments and information communication technology.

Maria Batzogiannis
Human Resources and Office Manager

Maria is responsible for organising and supervising all of the administrative activities that facilitate the smooth running of the ARPC. Maria also establishes and implements human resource policies and strategies to ensure business objective are achieved.

Marianne Cavanagh
Corporate Governance Manager

Marianne is the Manager of the Corporate Governance area. She is responsible for legislative compliance, business continuity planning, internal audit, risk management and the communications strategy. She also provides the Board secretariat.

Michael Pennell
Client Services and Reinsurance Manager

Michael is responsible for arranging contracts of reinsurance with all insurers which write eligible insurance contracts and for implementing ARPC's retrocession program. He also manages various projects which enable ARPC to develop and enhance its loss estimation capabilities.

Michael Stallworthy
Cedant Review and Claims Manager

Michael is responsible for establishing and managing the claims processes and procedures. He is also responsible for conducting the cedant review program. This involves visiting all Australian, New Zealand and Singapore cedants over a rolling two year period.

Staffing information

As at 30 June 2012, ARPC had a total of 24 employees: 20 full-time permanent employees, two part-time permanent employees, one part-time non-ongoing employee and one employee on maternity leave.

Following are three tables which demonstrate classifications, gender and length of service of staff.

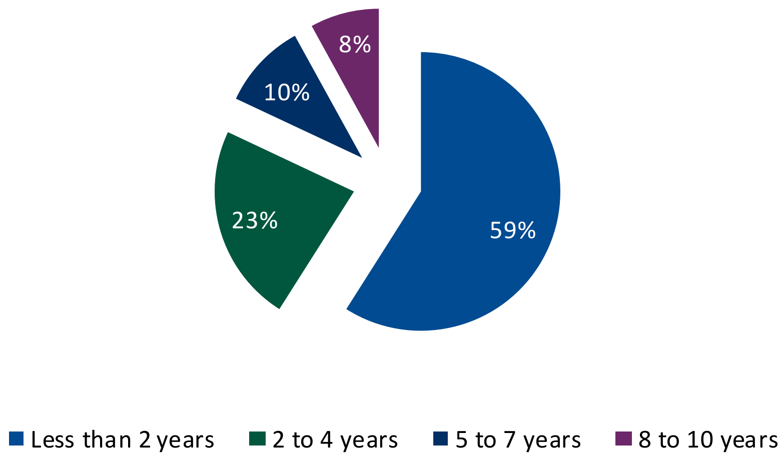
Table 4.1: Number of employees by classification and gender

Classification	Male	Female	Total
ARPC level 3	-	3	3
ARPC level 4	-	1	1
ARPC level 5	1	6	7
ARPC level 6	-	1	1
ARPC EL 1	2	-	2
ARPC EL 2	2	3	5
Senior executive staff (SES)	4	1	5
Total	9	15	24

Table 4.2: Number of employees by work area and gender

Work area	Male	Female	Total
Claims and cedant review	1	1	2
Client services and reinsurance	1	-	1
Human resources and administration	-	6	6
Corporate services	3	5	8
Corporate governance	3	3	6
Executive	1	-	1
Total	9	15	24

Chart 4.1: Length of service



HUMAN RESOURCE MANAGEMENT

The Human Resources (HR) team provides a range of HR and administrative support to the managers and employees of ARPC through the provision of advice and guidance relating to processes and policies.

The HR team also coordinates training and recruitment activities to promote a productive and skilled workforce and enable the delivery of ARPC's outcomes.

ARPC's payroll and high level occupational health and safety (OH&S) functions are managed by Treasury through a service level agreement.

Employment agreements

All ARPC staff are appointed under the *Terrorism Insurance* (TI) *Act 2003*.

Employment agreements provide ongoing employment for all ARPC employees, other than the CEO who is employed on a fixed term contract.

The employment terms and conditions for senior executive staff (SES) equivalent staff are governed by individual employment agreements.

ARPC's Enterprise Agreement 2010-14 provides the terms and condition of employment for non-SES staff. During the latter half of 2011 ARPC's Enterprise Agreement was varied to extend the nominal expiry date from 2012 to 2014. The variation included an increase in employer superannuation contribution from 9 per cent to 15.4 per cent, a salary increase of 2.5 per cent per year over the next two years and an increase in the lifestyle payment.

Table 4.4 demonstrates the salary scales for all non-SES staff as at 30 June 2012.

Table 4.3: Salary scales for non-SES staff

Level	Salary band
ARPC level 1	$41,551 — $45,124
ARPC level 2	$47,896 — $51,066
ARPC level 3	$54,237 — $57,406
ARPC level 4	$60,577 — $63,747
ARPC level 5	$68,108 — $72,468
ARPC level 6	$76,828 — $93,079
Executive Level 1	$100,212 — $114,956
Executive Level 2	$122,407 — $140,482

Performance management system

ARPC's performance management system (PMS) was reviewed in early 2012 to reflect changes to:

- ARPC's Enterprise Agreement
- how senior executive staff are assessed.

The PMS is a tool used to assist ARPC to improve its capabilities. It provides managers and employees with regular opportunities to discuss employees performance, learning and development needs. The PMS assists in managing cases where performance expectations are not being met. It also provides a fair and equitable way to recognise and reward staff for their performance and achievements over the preceding 12 months.

In addition to the PMS, managers provide employees with regular feedback, coaching and assistance with identifying and encouraging appropriate career development opportunities.

In accordance with ARPC's Enterprise Agreement 2010-14, the PMS provides incremental salary advancement. Staff are rated on a scale of one (exceeds standard) to five (not meeting standard) and are required to receive a rating of one or two to be eligible for an incremental increase in salary. ARPC also allows for performance bonuses of up to 10 per cent of the employee's salary to be paid to acknowledge employees' outstanding performance or contribution to ARPC.

Learning and development

ARPC recognises the value and importance of investing in its employees to enable them to have the skills and knowledge to carry out their roles effectively.

ARPC supports and is committed to a range of suitable training and development opportunities for all employees. It encourages employees to participate in a broad range of relevant technical skills training, management courses and leadership development.

ARPC supports employee attendance at relevant industry conferences, seminars and external courses.

During the year employees attended a wide range of development programs including:

- Certificate in governance and risk management
- Managing public communication workshop
- Financial Services Accountants Association national conference
- How to run a code of conduct investigation workshop
- Chartered Secretaries Australia annual conference

ARPC employees have access to the training and development programs offered by Treasury and actively participate in those programs.

Study assistance

Study assistance is an integral part of ARPC's HR strategy. ARPC provides leave and financial assistance to employees undertaking part-time courses of study that will enhance their contribution to ARPC.

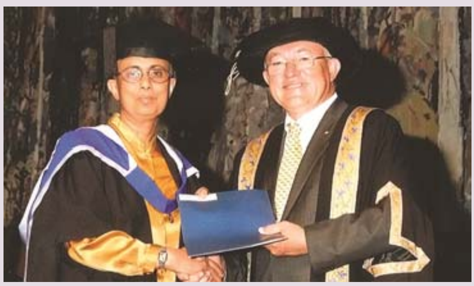
ARPC has made a significant investment in supporting employees undertaking tertiary study.

At 30 June 2012 employees were undertaking study in:

- Diploma of Information Technology (systems analysis and design)
- Graduate Diploma in Marketing
- Certificate IV in Accounting.

INVESTING IN OUR PEOPLE

Renuka Senanayake recently graduated from the University of Canberra with a Masters of Professional Accounting (extended). She completed units in public administration, government finance and public policy. Renuka is ARPC's Governance Officer.



Occupational health and safety

The ARPC is committed to ensuring the health, safety and wellbeing of all its employees, contractors and visitors.

A health and safety committee has been established by Treasury to address matters such as OH&S issues and policies, employee wellbeing, health and safety performance reporting, accommodation issues and accident and incident reports.

The committee consists of representatives from each Treasury workplace group and Treasury agencies covered by service level agreements. It also includes members of the Treasury workplace committee and key corporate services staff. ARPC has a health and safety representative (HSR) on the committee, as part of our service level agreement with Treasury. ARPC's HSR is provided with formal training to provide an understanding of their roles and responsibilities in relation to OH&S matters.

Treasury's OH&S policy is designed to foster and maintain a safe and healthy working environment in accordance with the *Work Health and Safety* (WHS) *Act 2011*. The WHS Act was implemented in a move to harmonise health and safety laws across Australia and came into effect as at January 2012, replacing the *OH&S Act 1991*.

ARPC's health and safety management arrangements (HSMA) used in conjunction with the WHS Act, regulations and approved codes of practice are integrated into the daily management of the offices. Though the WHS Act does not require HSMA, ARPC will continue to maintain and update its HSMA. The HSMA was developed in consultation with staff and provides a framework and support network designed to foster a healthy and safe workplace. The HSMA reinforces the responsibilities that ARPC has in actively promoting these strategies for the wellbeing of all employees, contractors and visitors to our workplaces.

To actively promote a healthy workforce, ARPC:

- developed and reviewed internal policies and procedures to address any new or emerging hazards
- offered influenza vaccinations to all employees
- arranged workstation assessments for all new staff and for existing staff when required
- carried out testing and tagging of all electrical equipment
- promoted the use of the employee assistance program
- provided opportunities for all staff to attend a mental health and wellbeing training course (through Comcare)
- provided opportunities for staff to attend training sessions on dealing with bullying and harassment within the workplace.

ARPC has an obligation under the WHS Act to provide a first aid service to staff. The Canberra office has one senior and two qualified first aid officers and the Sydney office has one qualified first aid officer. All employees will retain their qualifications by undertaking refresher courses each year.

Incidents

When incidents occur, ARPC is committed to supporting employees and assisting them to return to work in a safe and supportive environment. This is undertaken in accordance with Treasury's rehabilitation policy and guidelines.

No serious personal injuries, prescribed incapacities or dangerous occurrences were reported during 2011-12 which resulted in a compensation claim.

WORKPLACE DIVERSITY

Workplace diversity program

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

ARPC's commitment to workplace diversity is demonstrated by its implementation of the strategies and initiatives of Treasury's workplace diversity program. The program seeks to foster an environment that attracts, develops, values and retains people from varying cultural backgrounds as well as those of different ages, genders, skills and experiences.

By implementing the workplace diversity program ARPC seeks to:

- ensure all employees practice and promote workplace diversity principles and objectives
- ensure the recruitment process reflects workplace diversity principles
- promote an environment where all employees are given the opportunity to develop to their full potential
- create an environment where employees have the opportunity to balance their work and personal life style choices
- encourage and support a safe and healthy working environment.

ARPC has a number of family friendly and work/life balance practices, including flexible working arrangements (such as part time and work from home arrangements) and leave.

Commonwealth disability strategy

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007-08, reporting on the employer role was transferred to the Australian Public Service Commission's State of the Service Report and the Australian Public Service (APS) Statistical Bulletin. These reports are available at www.apsc.gov.au. From 2010-11, departments and agencies are no longer required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy which sets out a ten year national policy framework for improving life for Australians with disability, their families and carers. A high level report to track progress for people with disability at a national level will be produced by the Standing Council on Community, Housing and Disability Services to the Council of Australian Governments and will be available at www.fahcsia.gov.au. The Social Inclusion Measurement and Reporting Strategy agreed by the Government in December 2009 will also include some reporting on disability matters in its regular How Australia is Faring report and, if appropriate, in strategic change indicators in agency Annual Reports. More information about social inclusion matters can be found at www.socialinclusion.gov.au

WELLBEING

ARPC is committed to the wellbeing of its staff through initiatives such as the employee assistance program, lifestyle payment and ensuring staff inclusion.

Employee assistance program

ARPC provides an employee assistance program that provides counselling and support to staff and immediate family members. The program delivered effective support during the year and was accessed by a small number of staff.

Lifestyle payment

Part of ARPC's wellbeing program is the lifestyle payment. ARPC's Enterprise Agreement provides for an annual payment toward positive lifestyle expenses. This payment has been used towards health club memberships, boot camp registration and similar programs. This program has 100 per cent participation from eligible staff.

Staff inclusion

ARPC maintains an open consultative process with its staff through regular all-staff meetings. Staff are kept informed of the range of management and operational issues. This helps build their understanding of ARPC's business, external factors that affect ARPC's work and the operational matters that directly influence their duties.

TEAM BUILDING

Planning days

This year ARPC staff used their annual planning days to assist in compiling ideas for the 2012-13 business plan. It also provided an opportunity for productive discussions. The two day event combined work and fun with great success.

Lunch and Learn

ARPC's 'lunch and learn' sessions are a fun and informal way for staff to learn about our business and other interesting topics. The sessions are held bi-monthly in Canberra and bring Sydney and Canberra staff together.

'Lunch and learn' encourages learning, discussion and helps build staff rapport. If there is a need to inform staff on a special issue an extra session will be arranged.

These sessions are very popular with all staff. Sessions held in 2011-2012 included:

- principles of finance, personal investment and superannuation
- ethics and fraud awareness.

Fundraising

ARPC has participated in many charity fundraisers during the year. Donations have been made to support many charities including: Tour de Cure, Leukaemia Foundation, Heart Foundation and Genes for Jeans.

One staff member took part in this year's World Greatest Shave raising $930.00 toward research to help people suffering with leukaemia.

Communication

ARPC's communication programs are designed to build a greater understanding and awareness of ARPC's business and its role in the industry.

Communication objectives

ARPC's communication objectives are to:

- assist cedants to comply with their obligations under the reinsurance agreement
- build and maintain relationships with current cedants
- develop ARPC's brand and communicate it internally and externally.

We achieve this through:

- conveying ARPC's message in a clear and consistent manner to stakeholders
- improving industry awareness of the terrorism insurance scheme and what ARPC can offer the insurance industry
- visiting cedants to ensure they understand their obligations under the reinsurance agreement and how ARPC's systems work.

Principles of communication

We strive to meet our communication objectives using the following principles:

- To communicate openly, honestly and consistently with our stakeholders, and with each other.
- Communication will be produced in plain English and written for its intended audience. It will be unambiguous, timely and of an appropriate quality.
- All communication and promotional material issued by ARPC will be branded and therefore clearly identifiable as having come from ARPC, and will include key contact details.

External communications

During 2011-12 the following external communications have been used to engage stakeholders:

- an online quarterly external newsletter aimed at informing cedants and business partners of ARPC movements, submissions and industry news
- inclusion of an article and advertisement in the Asia Insurance Review
- news updates on ARPC's website.

Internal communications

ARPC maintains a high level of communication amongst staff and encourages an inclusive workplace. Meetings with all staff are held regularly. Staff are also consulted on projects being undertaken in other areas to encourage staff involvement and the generation of new ideas.

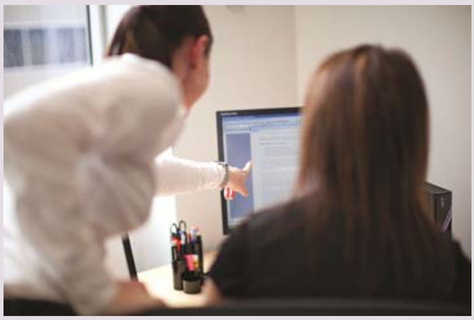
'We've got it covered' is a monthly internal newsletter that communicates information relevant to ARPC, its activities in the workplace and upcoming training events.

IMPROVING OUR REPORT

Three of our staff volunteered to attend training to assess annual reports for the Institute of Public Administration Australia (IPAA) Annual Report Awards this year.

The training proved highly valuable and we have implemented many changes into this year's annual report.

ARPC staff involved in this process agreed the time spent was worthwhile and has resulted in an improved report this year.



ARPC publications and other communication activities

During 2011-12 the communications area:

- prepared and presented the 2010-11 annual report to the Minister within the legislative timeframe

- conducted a review and updated the Information Publication Scheme (IPS) documents on the website (publishing of the IPS documents is a requirement of the FOI Act

- reviewed ARPC's contingency plans in relation to their communications

- published a new brochure called 'ARPC, filling the gap in terrorism reinsurance for business'

- published an online quarterly newsletter aimed at cedants and other ARPC stakeholders

- produced ARPC merchandise for marketing purposes

- continued to brand stationery, documents and reports in accordance with ARPC's corporate style guide.

Chapter Five

Financial Statements

CHAPTER 5: FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Australian National
Audit Office

To the Treasurer

Report on the Financial Statements

I have audited the accompanying financial statements of the Australian Reinsurance Pool Corporation for the year ended 30 June 2012, which comprise: a Statement by Members, Chief Executive and Chief Financial Officer; the Statement of comprehensive income; Balance sheet; Statement of changes in equity; Cash flow statement; Schedule of commitments; and Notes to and forming part of the financial statements, including a Summary of significant accounting policies.

The Members' Responsibility for the Financial Statements

The members of the Australian Reinsurance Pool Corporation are responsible for the preparation of the financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997,* including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Australian Reinsurance Pool Corporation's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian Reinsurance Pool Corporation's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the members, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT 2600
Phone (02) 6203 7300 Fax (02) 6203 7777

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Australian Reinsurance Pool Corporation:

(a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997,* including the Australian Accounting Standards; and

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Australian Reinsurance Pool Corporation's financial position as at 30 June 2012 and of its financial performance and cash flows for the year then ended.

Australian National Audit Office

Michael J Watson

Michael J Watson

Group Executive Director

Delegate of the Auditor-General

Canberra

11 September 2012

Statement by Members, Chief Executive and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2012 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* as amended.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Australian Reinsurance Pool Corporation 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	D Matcham	L Daly
Chair	Chief Executive Officer	Chief Financial Officer
11 September 2012	11 September 2012	11 September 2012

Statement of comprehensive income
for the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Premium revenue		**119,130**	108,720
Outwards retrocession premium expense		**(81,607)**	(84,186)
Net premium revenue	5(a)	**37,523**	24,534
Claims expense		**-**	-
Retrocession and other recoveries revenue		**-**	-
Net claims incurred		**-**	-
Acquisition costs	6(b)	**(599)**	(609)
Underwriting result		**36,924**	23,925
Retrocession commision revenue	5(b)	**7,705**	8,004
Investment income	5(c)	**40,886**	36,180
Other income	5(d)	**5,484**	(88)
Other operating expenses	6(b)	**(7,511)**	(6,635)
Operating result		**83,488**	61,386

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

Balance sheet
as at 30 June 2012

		Notes	2012 $'000	2011 $'000
Assets				
	Current assets			
	Cash and cash equivalents	7	**8,299**	14,660
	Receivables	8	**43,218**	38,961
	Investments	9	**757,363**	665,648
	Deferred insurance assets	10(a)	**40,418**	42,664
	Other non-financial assets	11	**34**	327
	Total current assets		**849,332**	762,260
	Non-current assets			
	Property plant and equipment	12	**916**	1,094
	Intangibles	12	**1,755**	1,769
	Total non-current assets		**2,671**	2,863
Total assets			**852,003**	765,123
Liabilities				
	Current liabilities			
	Unearned liability	13(a)	**61,502**	56,086
	Payables	14(a)	**40,303**	42,524
	Dividend payable	14(b)	**175,000**	-
	Other interest bearing liabilities	15	**25**	45
	Employee provisions	16(a)	**244**	201
	Total current liabilities		**277,074**	98,856
	Non-current liabilities			
	Dividend payable	14(b)	**214,202**	-
	Other interest bearing liabilities	15	**301**	203
	Employee provisions	16(a)	**234**	218
	Total non-current liabilities		**214,737**	421
Total liabilities			**491,811**	99,277
Net assets			**360,192**	665,846
Equity				
	Accumulated reserves		**-**	-
	Asset revaluation reserve		**60**	-
	Claims handling reserve		**21,732**	-
	Reserve for claims		**338,400**	665,846
Total equity			**360,192**	665,846

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

Statement of changes in equity
as at 30 June 2012

	Notes	Accumulated reserves		Asset revaluation reserve		Claims handling reserve		Reserve for claims		Total equity	
		2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Opening balance at 1 July 2011		**-**	-	**-**	-	**-**	-	**665,846**	604,460	**665,846**	604,460
Income and expenses											
Net operating result		**83,488**	61,386	**-**	-	**-**	-	**-**	-	**83,488**	61,386
Total income and expenses		**83,488**	61,386	**-**	-	**-**	-	**-**	-	**83,488**	61,386
Transfers between equity components											
Write back asset revaluation reserve		**-**	-	**60**	-	**-**	-	**-**	-	**60**	-
Transfer to reserve for claims	1(m)	**(83,488)**	(61,386)	**-**	-	**-**	-	**-**	-	**(83,488)**	(61,386)
Claims handling reserve		**-**	-	**-**	-	**21,732**	-	**-**	-	**21,732**	-
Transfer to reserve for claims from accumulated reserves		**-**	-	**-**	-	**-**	-	**61,756**	61,386	**61,756**	61,386
Transactions with owners											
Distributions to owners		**-**	-	**-**	-	**-**	-	**(389,202)**	-	**(389,202)**	-
Closing balance at 30 June 2012		-	-	60	-	**21,732**	-	**338,400**	665,846	**360,192**	665,846

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

Cash flow statement
for the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Operating activities			
Cash received			
Premiums		133,881	120,470
Commission		8,462	8,803
Interest		43,789	36,777
Grant		-	109
Total cash received		186,132	166,159
Cash used			
Retrocession payments		84,378	87,278
Creditors and employees		7,837	8,003
Interest and other costs of finance paid		-	-
Net goods and services tax paid to ATO		8,457	7,035
Total cash used		100,672	102,316
Net cash from or (used by) operating activities	17	85,460	63,843
Investing activities			
Cash used			
Purchase of property, plant and equipment		91	370
Purchase of intangibles		15	1,167
Purchase of investments		91,715	89,314
Total cash used		91,821	90,851
Net cash from or (used by) investing activities		(91,821)	(90,851)
Net increase or (decrease) in cash held		(6,361)	(27,008)
Cash and cash equivalents at the beginning of the reporting period		14,660	41,668
Cash and cash equivalents at the end of the reporting period	7	8,299	14,660

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

Schedule of commitments
as at 30 June 2012

	2012 $'000	2011 $'000
By type		
Other commitments		
Service level agreements *	2,640	708
Software license agreement**	31	52
Software development agreement***	66	787
Operating leases ****	3,459	4,280
Total other commitments	6,196	5,827
Commitments receivable	(563)	(525)
Net commitments by type	5,633	5,302
By maturity		
Service level agreements commitments		
One year or less	1,055	708
From one to five years	1,585	
Total service level agreements commitments	2,640	708
Software licence agreement commitments		
One year or less	31	52
From one to five years		
Total software licence agreement commitments	31	52
Software support and development agreement commitments		
One year or less	33	721
From one to five years	33	66
Total software support and	66	787
Operating lease commitments		
One year or less	747	726
From one to five years	2,712	3,195
More than five years	-	359
Total operating lease commitments	3,459	4,280
Commitments receivable		
One year or less	(170)	(196)
From one to five years	(393)	(296)
More than five years	-	(33)
Total commitments receivable	(563)	(525)
Net commitments by maturity	5,633	5,302

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

NB: Commitments are GST inclusive where relevant.

* Outstanding contractual payments for service level agreements.

** Outstanding contractual payments for software licence agreement.

*** Outstanding contractual payments for software support and development agreement.

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

Nature of lease	*Description of leasing agreement*
Lease for office accommodatio	Upon exercising the 3 year lease option the rent will be reviewed in accordance with prevailing market conditions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 *Terrorism Insurance Act 2003* (TI Act).

The TI Act effectively deems terrorism risk cover into eligible insurance contracts by rendering terrorism exclusions void. Insurance companies may reinsure this additional risk with ARPC.

ARPC has the power to do all things necessary in connection with the performance of its functions.

The following accounting policies have been adopted in the financial statements.

(a) Basis of preparation of the financial statements

The financial statements and notes are required by clause 1(b) of Schedule 1 to the CAC Act and are a general purpose financial report.

The continued existence of ARPC in its present form and with its present programs is dependent on Government policy.

The financial statements and notes have been prepared in accordance with:

- FMOs for reporting periods ending on or after 1 July 2011; and
- Australian Accounting Standards and interpretations issued by the AASB that apply for the reporting period.

In preparing the financial statements, ARPC has applied the exemption provided by the Minister for Finance and Deregulation in Division 17.12 of the FMOs, allowing ARPC to present a financial report in a format consistent with that used in the general insurance industry in place of the prescribed format as outlined in Annexure A to Schedule 1 of the Finance Minister's Orders.

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

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified (Note 1(w)).

Unless alternative treatment is specifically required by an Accounting Standard or the FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to ARPC and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrealised are reported in the Schedule of Commitments (Note 1(r)).

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Statement of Comprehensive Income when, and only when, the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

(b) Going concern

These financial statements have been prepared on the basis that ARPC is a going concern.

(c) Significant accounting judgements and estimates

In the process of applying the accounting policies listed in this note, ARPC has made the following estimate based on historical experience and other factors that have the most significant impact on the amounts recorded in the financial statements:

- the unclosed business estimate required by note 1(e) for premium revenue was based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

(d) New accounting standards

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

No new standards, amendments to standards and interpretations issued by the Australian Accounting Standards Board for the current financial year have a material financial impact on ARPC.

Future Australian Accounting Standard requirements

There are no new standards, amendments to standards or interpretations issued by the Australian Accounting Standards Board that are applicable to future periods that have a material financial impact on future reporting periods for ARPC.

(e) Revenue

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 in the Statement of Comprehensive Income. 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 2012 are recognised as premiums receivable in the Balance Sheet.

The proportion of premium received or receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Balance Sheet as unearned premium.

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

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

Retrocession commission revenue

Retrocession commission revenue is recognised in the Statement of Comprehensive Income in accordance with the pattern of revenue earned.

Investment revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 Financial instruments: Recognition and measurement.

(f) Retrocession premium expense

Amounts paid to retrocessionaires are recorded as an outwards retrocession premium expense and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the contract in accordance with the expected pattern of the incidence of risk ceded.

(g) Unexpired risk liability

ARPC has compared the net present value of the expected future cash flows relating to future claims arising under general insurance contracts with the reported unearned premium liability.

There is no deficiency noted or recorded in these financial statements (2011: $0). Accordingly, there has been no write down in ARPC's deferred acquisition costs.

(h) Outstanding claims liability

The financial statements have not included a provision for outstanding claims (2011: $0). ARPC has not engaged an actuarial assessment to independently assess this balance as:

- a DTI has not been announced since the inception of ARPC; and

- any such declaration must be announced by the Treasurer after consultation with the Attorney-General.

ARPC considers that there are no significant inherent uncertainties in respect of the liability estimate. Accordingly, ARPC has not applied a central estimate to the provision and has not, therefore, applied a prudential margin in respect of the provision.

(i) Net claims incurred

A DTI has not been announced since the inception of ARPC.

(j) Assets backing general insurance liabilities

With the exception of property, plant and equipment and intangibles, ARPC has determined that all assets are held to back general insurance liabilities and their accounting treatment is described below.

Financial assets

Financial assets are designated at fair value through the Statement of Comprehensive Income. Initial recognition is at cost in the Balance Sheet and subsequent measurement is at fair value with any resultant unrealised profits and losses recognised in the Statement of Comprehensive Income.

Details of fair value for the different types of financial assets are listed below.

Cash

Cash assets are carried at the face value of the amounts deposited or drawn. The carrying amounts of cash assets are approximate to their fair value. For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits held at call with banks.

Investments

- Fixed interest deposits are carried at face value of the amounts deposited. The carrying amounts are approximate to their fair value.

- Government (guaranteed) securities are initially recognised at cost and the subsequent fair value is taken as the quoted mid price of the security at the Balance Sheet date.

All purchases and sales of financial assets that require delivery of the asset with the time frame established by regulation or market convention are recognised at trade date, being the date on which ARPC commits to buy or sell the asset.

In cases where the period between trade and settlement exceeds the time frame, the transaction is recognised at settlement date. Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and ARPC has transferred substantially all the risks and rewards of ownership.

Receivables

Amounts due from policyholders and intermediaries are initially recognised at fair value, being the amounts due. They are subsequently measured at fair value which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivables is established when there is objective evidence that ARPC will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The discount is calculated using a risk free rate. The impairment charge is recognised in the Statement of Comprehensive Income.

(k) Deferred insurance assets

Deferred acquisition costs

Acquisition costs are incurred in obtaining and recording policies of insurance. They include legal, advertising, risk assessment 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 where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods. 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 corresponding premium revenue.

Deferred retrocession premium

Deferred retrocession premiums are recognised as part of deferred insurance assets. The amortisation of deferred retrocession premiums is in accordance with the pattern of retrocession service received. The amount deferred represents the future economic benefit to be received from the retrocession contracts.

(l) 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.

A direction was given by the Minister on 21 June 2012 to commence dividend payments from 2013. The current direction is for a payment of $175 million to be made during 2013 with further payments of $75 million for each consecutive year from 2014 to 2016 inclusive (2011: $0).

Section 41.1 of the Finance Ministers Orders requires ARPC to recognise in this financial year's statements the commitment to make a future stream of dividend payments.

The dividend stream is recognised in its present value by applying the method as set out in AASB 139 and using the discount rates published by the Department of Finance and Deregulation.

(m) Reserves

The intention of the Government in establishing ARPC was that premiums would be used to fund a 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.

(n) Employee benefits

Liabilities for ‘short-term employee benefits’ (as defined in AASB 119) and termination benefits due within twelve months of balance date are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of ARPC is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees’ remuneration at the estimated salary rates that applied at the time the leave is taken, including ARPC’s employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than being 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 2011. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation

Superannuation guarantee contributions are made by ARPC for employees and certain Members.

The default superannuation scheme is the Australian Government Employees Superannuation Trust.

The liability for superannuation recognised as at 30 June 2012 represents outstanding contributions for the final fortnight of the year.

(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 rewards incidental to ownership of leased non-current assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

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

(p) Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred.

Financial liabilities are derecognised when the obligation under the contract is discharged, cancelled or expires.

No financial assets or liabilities were derecognised in these financial statements (2011: $0).

(q) Trade creditors

ARPC's trade creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (irrespective of having been invoiced).

All payables are unsecured and are paid within credit terms.

(r) Contingent liabilities and contingent assets

Contingent liabilities and assets are not recognised in the Balance Sheet but are reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Contingent assets are reported when settlement is probable, and contingent liabilities are recognised when settlement is greater than remote.

There are no contingent liabilities or assets noted in these financial statements (2011: $0).

(s) Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor authority's accounts immediately prior to the restructuring.

(t) Property, plant and equipment

Asset recognition and threshold

Purchases of property, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than $2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in property leases taken up by ARPC where there exists an obligation to restore the property to its original condition. These costs are included in the value of ARPC's leasehold improvements with a corresponding provision for the 'make good' recognised.

Revaluations

Fair values for each class of asset are determined as shown below:

Asset class	Fair value measured at:
Leasehold improvements	Depreciated replacement cost
Plant & equipment	Market selling price

Following initial recognition at cost, property, plant and equipment are carried at fair value less accumulated depreciation and accumulated impairment losses. Independent valuations are conducted with sufficient frequency to ensure that the carrying amount of assets do not differ materially from the asset's fair value at the reporting date. The regularity of independent valuation depends upon the volatility of movements in market values for the relevant assets.

ARPC engaged an independent valuer, Preston Rowe Patterson NSW Pty Limited, to conduct a valuation to determine the fair value of the property, plant and equipment as at 1 July 2011.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through surplus and deficit. Revaluation decrements for a class of assets are recognised directly through surplus and deficit except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the re-valued amount with the exception of leasehold improvements which are re-valued using the gross method.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to ARPC using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

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

	2012	2011
Leasehold improvements	**Lease term**	Lease term
Plant and equipment	**3 to 7 years**	3 to 7 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 12.

Impairment

All assets were assessed for impairment at 30 June 2012. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if ARPC were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

There has been no impairment adjustment recognised in these financial statements (2011: $0).

(u) Intangibles

Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised on the Balance Sheet and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred.

ARPC's intangibles comprise externally acquired and internally developed software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful life of ARPC's externally purchased and internally developed software is four years (2011: four years).

All software assets were assessed for indications of impairment as at 30 June 2012. There has been no impairment write-off recognised in these financial statements (2011: $0).

(v) Taxation

Income tax

ARPC is exempt from income tax by virtue of section 36 of the TI Act. ARPC is subject to fringe benefits tax and the GST.

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the amount of GST incurred is not recoverable from the ATO;
- for receivables and payables.

(w) Rounding of amounts

Amounts in these financial statements have been rounded to the nearest thousand dollars in accordance with policy 13.1(a) of the FMOs with the exception of executive remuneration, Members' remuneration, Auditor's remuneration and transactions with related entities.

(x) Government grants

Government grants that compensate the ARPC for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

Note 2: Events after the Balance Sheet date

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

Note 3: Risk management

ARPC's approach to managing risk is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS IS0 31000:2009). The RMS identifies ARPC's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, which ARPC has identified it might face.

The senior management of ARPC have developed, implemented and maintain a sound and prudent RMS. The Risk Committee reviews the RMS at least annually and confirms there are systems in place to ensure compliance with legislative and prudential requirements.

The broad risk categories discussed below are:

- insurance risk
- operational risk
- capital risk
- financial risks are considered in Note 4. Within each of these categories, risks are evaluated before consideration of the impact of mitigating controls. The existence and effectiveness of such mitigating controls are then measured to ensure that residual risks are managed within risk tolerance.

Insurance risk

The following outlines how ARPC manages its insurance risks across the underwriting, claims and actuarial disciplines.

Underwriting risks

Section 8 of the TI Act renders terrorism exclusion clauses in all eligible insurance contracts ineffective. Insurers have the right to reinsure this risk with ARPC.

Key aspects of the process established to mitigate risks include:

- ARPC's underwriting risk is limited to eligible terrorism losses arising in respect of eligible insurance contracts
- ARPC utilises a standard reinsurance agreement for underwriting and accepting insurance risks
- ARPC undertakes a Cedant review program to verify the premium levels

- ARPC's exposure to concentrations of insurance risk is mitigated by the fact the TI Act applies to all eligible insurance contracts. The wording of the TI Act is designed to ensure that ARPC's concentration risk is diversified both geographically and by type of risk.

Claims risk

A declared terrorist incident has not been announced since the inception of ARPC, however ARPC's mitigation strategies for the claims risks include:

- the capping of ARPC's liabilities at $10 billion plus the amount of the reserve for claims as a result 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 appointment of a claims manager and the development of claims procedures to ensure that all claims advices are captured and updated on a timely basis

- an agreement is in place with an actuarial firm

- the collection of annual aggregate exposure data from clients and the development of a loss estimation model to support advice given regarding a reduction percentage and the ultimate claims cost;

- the mix of assets in which ARPC invests is regulated by section 18 of the CAC Act. The management of investments is closely monitored to ensure the liquidity of funds match the potential liabilities

- during 2012 ARPC established a claims handling reserve of $21.732 million. The purpose of this reserve is to ensure there are sufficient monies set aside to allow ARPC to continue to operate in order to finalise any claims and reinsurance recoveries following cessation of the scheme or a significant DTI. The claims handling reserve will be set by the Board annually in August of each year.

Retrocession counterparty risk

ARPC purchased retrocession to encourage capacity to return to the terrorism insurance market, control exposure to DTI losses and protect capital. ARPC's strategy in respect of the selection, approval and monitoring of retrocession arrangements is addressed by the following:

- treaty retrocession is placed in accordance with the requirements of ARPC's retrocession management strategy

- retrocession arrangements are regularly reassessed based on current exposure information

- exposure to the credit quality of the retrocessionaires is actively monitored.

Counterparty exposures and limits are reviewed by management on a regular basis. Retrocession is only placed with counterparties that have a credit rating of A- and above and concentration risk is managed with reference to the counterparty limits. In the event of a DTI ARPC will receive recognised collateral from non-APRA authorised participants in the program.

The following tables provide information about the quality of ARPC's credit risk exposure in respect of its retrocession program. The analysis classifies the counterparty risk according to counterparty credit ratings.

	Retrocession program counter party credit rating			
	AAA	**AA+**	**AA**	**AA-**
	2012	**2012**	**2012**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**-**	**70,063**	**10,275**	**892,625**
	A+	**A**	**A-**	**Total**
	2012	**2012**	**2012**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
ARPC				
Total exposure	**972,208**	**252,382**	**556,626**	**2,754,179**

	Retrocession program counter party credit rating			
	AAA	AA+	AA	AA-
	2011	2011	2011	2011
	$'000	$'000	$'000	$'000
ARPC				
Total exposure	19,000	434,600	175,120	483,680
	A+	A	A-	Total
	2011	2011	2011	2011
	$'000	$'000	$'000	$'000
ARPC				
Total exposure	942,230	288,050	407,320	2,750,000

Operational risk

Operational risk is the risk of loss arising from system failure or inadequacies, human error or external events that do not relate to insurance, capital and financial risks.

ARPC manages these types of risks within the entity's enterprise-wide risk management framework. ARPC's mitigation strategies for operational risk include:

- effective staff recruitment and retention policies;

- the segregation of duties including access controls, delegated authorisation levels and accounting reconciliations controls;

- maintenance and use of sophisticated information systems which provide up to date and reliable data to assist in managing the risk to which the business is exposed to at any point in time; and

- implementation and ongoing management of ARPC's BCP.

Capital risk

In the event of a DTI ARPC would be required to pay $375 million before claiming on its retrocession program. The following details ARPC's capital structure to cover claims from a DTI:

- ARPC has access to its reserve for claims of $338.400 million.

- ARPC has unrestricted access to a $10 billion Commonwealth Government guarantee.

- ARPC has access to a $2.76 billion retrocession program which commences once ARPC has met the deductible of $375 million.

- ARPC holds cash and investments of $427.262 million which are retained, in addition to the reserve for claims, to fund the 4 year dividend stream to the Commonwealth totalling $400 million with the balance as ARPC's claims handling reserve.

Note 4: Financial risk management

ARPC is exposed to financial risks such as market risk, credit risk, and liquidity risk. It seeks to minimise potential adverse effects on its financial performance through its risk management framework. The key objectives are to ensure capital stability, accessibility and rate of return.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises three types of risk:

- foreign currency risk (due to fluctuations in foreign exchange rates);

- interest rate risk (due to fluctuations in market interest rates); and

- price risk (due to fluctuations in market prices).

1) Foreign currency risk

All foreign transactions are converted to Australian dollars at the exchange rate at the date of the transaction. There has been no foreign currency transactions recognised in the financial statements (2011: $0).

2) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial instruments with floating rate interest expose ARPC to cash flow interest rate risk, whereas fixed interest rate instruments expose ARPC to fair value interest rate risk.

ARPC manages the interest rate risk through its investment policy. The policy notes ARPC must comply with the requirements of the CAC Act. Section 18(3) of the CAC Act provides that a Commonwealth authority may invest surplus money:

a) on deposit with a bank;
b) in securities of the Commonwealth or of a State or Territory;
c) in securities guaranteed by the Commonwealth, a State or a Territory; or
d) in any other manner approved by the Finance Minister.

ARPC actively manages the duration of the portfolio. The maturity profile of ARPC's interest bearing financial assets and hence its exposure to interest rate risk and the effective weighted average interest rate for interest bearing financial assets is listed below.

		Floating interest rate	**Fixed interest rate maturing in**			**Total**
		1 year or less	**1 year or less**	**1-5 years**	**> 5 years**	
		2012	**2012**	**2012**	**2012**	**2012**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Interest bearing financial assets						
Cash and cash equivalents	7	**8,299**	**-**	**-**	**-**	**8,299**
Fixed Term Deposits	9	**-**	**521,000**	**-**	**-**	**521,000**
Government securities	9	**-**	**5,156**	**112,657**	**118,550**	**236,363**
Total		**8,299**	**526,156**	**112,657**	**118,550**	**765,662**
Weighted average interest rate		**3.47%**	**5.54%**	**5.80%**	**5.97%**	**5.64%**

		Floating interest rate	Fixed interest rate maturing in			Total
		1 year or less	1 year or less	1-5 years	> 5 years	
		2011	2011	2011	2011	2011
	Notes	$'000	$'000	$'000	$'000	$'000
Interest bearing financial assets						
Cash and cash equivalents	7	14,660	-	-	-	14,660
Fixed Term Deposits	9	-	607,500	45,000	-	652,500
Government securities	9	-	10,112	3,036	-	13,148
Total		14,660	617,612	48,036	-	680,308
Weighted average interest rate		4.69%	5.82%	6.18%	0.00%	5.82%

The table below details the interest rate sensitivity analysis of ARPC at the reporting date, holding all other variables constant.

The Department of Finance and Deregulation deemed a 140 basis point change to be reasonably possible and this was adopted by ARPC when reporting interest rate risk.

	Movement in variable	Movement in variable	Financial impact			
			Profit / (Loss)		Equity	
	2012	2011	**2012**	2011	**2012**	2011
	%	%	**$'000**	$'000	**$'000**	$'000
Interest rate movement						
- interest bearing	+1.40	+1.75	**10,719**	11,905	**10,719**	11,905
Financial assets	**-1.40**	**+1.75**	**(10,719)**	(11,905)	**(10,719)**	(11,905)

The method used to arrive at the possible change of 140 basis points was based on both statistical and non-statistical analysis. The statistical analysis has been based on the cash rate for the past five years issued by the RBA as the underlying dataset. This information is then revised and adjusted for reasonableness under the current economic circumstances.

The Department of Finance and Deregulation considers 140 basis points is reasonable because it is reasonably possible that there will be greater volatility compared to that which has been experienced in recent years.

3) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar, financial instruments traded on the market.

The premium charged for reinsurance is determined by Ministerial direction. The premiums have been set having regard to the level of risk. ARPC is not exposed to price risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The following policies and procedures are in place to mitigate ARPC's credit risk:

- premium debtors in respect of credit risk is monitored monthly; and
- an approved investment policy document. Compliance with the policy is monitored and reported monthly.

The following table provides information regarding the aggregate credit risk exposure to APRC in respect of financial assets. The table classifies the assets according to Standard & Poor's counterparty credit ratings.

		Credit Rating					
		AAA	**AA+**	**AA**	**AA-**	**A+**	**Total**
		2012	**2012**	**2012**	**2012**	**2012**	**2012**
		$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
ARPC							
Cash and cash equivalents	7	1,056	-	-	7,243	-	8,299
Fixed Term Deposits	9	-	-	-	458,500	62,500	521,000
Government securities	9	151,826	84,537	-	-	-	236,363
Total		152,882	84,537	-	465,743	62,500	765,662

		Credit Rating					
		AAA	AA+	AA	AA-	A+	Total
		2011	2011	2011	2011	2011	2011
		$'000	$'000	$'000	$'000	$'000	$'000
ARPC							
Cash and cash equivalents	7	2,763	-	5,318	-	6,579	14,660
Fixed Term Deposits	9	-	-	606,500	-	46,000	652,500
Government securities	9	13,148	-	-	-	-	13,148
Total		15,911	-	611,818	-	52,579	680,308

The carrying amount of the relevant asset classes in the Balance Sheet represents the maximum amount of credit exposure.

The following table provides information regarding the carrying value of ARPC's financial assets that have been impaired and the ageing of those that are past due but not impaired at the balance date.

		Neither past due nor impaired		Past due but not impaired			
				0 to 3 months		Total	
	Notes	**2012**	2011	**2012**	2011	**2012**	2011
		$'000	$'000	**$'000**	$'000	**$'000**	$'000
Financial assets							
Premium receivables	8		-	**27,555**	25,824	**27,555**	25,824
Commission receivables	8		-	**3,771**	3,922	**3,771**	3,922
Interest receivable	8	**11,774**	9,193		-	**11,774**	9,193
Other receivables	8	**55**	11		-	**55**	11
Total		**11,829**	9,204	**31,326**	29,746	**43,155**	38,950

Liquidity risk

ARPC's financial liabilities are payables and other interest bearing liabilities. The exposure to liquidity risk is based on the notion that ARPC will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to the internal policies and procedures in place to ensure there are sufficient resources to meet its financial obligations.

The table below summaries the maturity profile of ARPC's financial liabilities.

		1 year or less		from 1 - 5 years		Total	
		2012	2011	**2012**	2011	**2012**	2011
	Notes	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Financial liabilities							
Payables	14(a)	**40,303**	42,524	-	-	**40,303**	42,524
Dividend payable	14(b)	**175,000**	-	214,202	-	**389,202**	-
Other interest bearing liabilities	15	**326**	248	-	-	**326**	248
Total		**215,629**	42,772	**214,202**	-	**429,831**	42,772

Financial statements

Note 5: Revenue

		2012 $'000	2011 $'000
(a)	**Net premium revenue**		
	Gross written premium	**124,709**	112,555
	Movement in unearned premium reserve	**(5,579)**	(3,835)
	Total premium revenue	**119,130**	108,720
	Outwards retrocession premium	**(81,607)**	(84,186)
	Net premium revenue	**37,523**	24,534
(b)	**Retrocession commision income**		
	Total retrocession commision income	**7,705**	8,004
(c)	**Investment income**		
	Cash at bank	**881**	1,695
	Term deposits	**32,617**	33,332
	Government securities	**7,388**	1,153
	Total investment income	**40,886**	36,180
(d)	**Other income**		
	Grant Income	**-**	**109**
	Realised gain/(losses) recognised through the statement of comprehensive income	**513**	(74)
	Unrealised gain/(losses) recognised through the statement of comprehensive income	**4,971**	**(123)**
	Total other income	**5,484**	(88)
(e)	**Total revenue**	**173,205**	152,816

Note 6: Other operating expenses

		2012 $'000	2011 $'000
(a)	**Expenses by nature**		
	Employee expenses	**2,816**	2,320
	Services from related entities	**353**	250
	Goods from external entities	**29**	35
	Services from external entities	**3,729**	3,619
	Operating lease rentals	**808**	626
	Depreciation and amortisation	**358**	366
	Leasehold write-off	**-**	8
	Bank fees and charges	**17**	20
	Total expenses by nature	**8,110**	7,244
(b)	**Expenses by function**		
	Acquisition costs	**599**	609
	General and administration expenses	**7,069**	5,945
	Investment expense	**442**	690
	Total expenses by function	**8,110**	7,244
(c)	**Employee expenses**		
	Wages and salaries	**2,303**	1,923
	Superannuation	**259**	187
	Leave and other entitlements	**245**	240
	Workers compensation premiums	**-**	13
	Other employee expenses	**9**	(43)
	Total employee expenses	**2,816**	2,320

Note 7: Cash and cash equivalents

	2012	2011
	$'000	$'000
Cash at bank	8,299	14,660
Total cash and cash equivalents	**8,299**	**14,660**

Cash and cash equivalents consist of at call deposits held with the Reserve Bank of Australia, Australian and New Zealand Bank, Commonwealth Bank of Australia, National Australia Bank and Suncorp Metway Ltd.

Note 8: Receivables

	2012	2011
	$'000	$'000
Premium receivable	27,555	25,824
Commission receivable	3,771	3,922
Interest receivable	11,774	9,193
GST receivable from the Australian Taxation Office	63	11
Other receivables	55	11
Total receivables	**43,218**	38,961

All receivables are with entities external to ARPC. Credit terms are net 30 days (2011: 30 days). Trade debtors are non-interest bearing.

Receivables (gross) are aged as follows:

	2012	2011
Not overdue	11,774	9,193
Overdue by:		
Less than 30 days	31,444	29,768
30 to 60 days	-	-
60 to 90 days	-	-
More than 90 days	-	-
	43,218	38,961

Interest receivable

The interest rate ranges from 2.90% to 8.00% (2011: 4.15% to 6.50%) and the frequency of payment is monthly for cash accounts, semi-annually for Government securities and on maturity for term deposits.

Note 9: Investments under s18 of the CAC Act

	2012	2011
	$'000	$'000
Term deposits	**521,000**	652,500
Government securities	**236,363**	13,148
Total investments	**757,363**	665,648

Term deposits

Term deposits are held with Australian and New Zealand Bank, St George Bank, National Australia Bank, Westpac Banking Corporation, Bank of Western Australia and Suncorp Metway Ltd and earn an effective rate of interest of 5.54% (2011: 5.82%). Interest is payable on maturity for deposits with a term of 12 months or less. Where the term exceeds 12 months, interest is paid at 12 months with the balance on maturity. Terms are between 21 and 735 days (2011: 28 and 735 days).

Government (guaranteed) securities

Securities have terms of up to 10 years. They are issued or guaranteed by the Commonwealth, a State or a Territory Government and are traded in active markets. The effective interest rate is 5.97% (2011: 6.13%).

Note 10: Deferred insurance assets

			2012	2011
			$'000	$'000
(a)	**Deferred insurance assets as at 1 July**			
	Deferred retrocession premium	10(b)	**39,902**	42,139
	Deferred acquisition costs	10(c)	**516**	525
	Total deferred insurance assets		**40,418**	42,664
(b)	**Deferred retrocession premium as at 1 July**			
	Deferred retrocession premium as at 1 July		**42,139**	42,734
	Retrocession premium deferred		**39,902**	42,139
	Amortisation charged to income		**(42,139)**	**(42,734)**
	Deferred retrocession premium as at 30 June		**39,902**	**42,139**
(c)	**Deferred acquisition costs as at 1 July**			
	Deferred acquisition costs as at 1 July		**525**	515
	Acquisition costs deferred		**516**	525
	Amortisation charged to income		**(525)**	(515)
	Deferred acquisition costs as at 30 June		**516**	525

Note 11: Other non-financial assets

	2012	2011
	$'000	$'000
Prepayments	**34**	327
Total other non-financial assets	**34**	327

All other non-financial assets are current assets.

Note 12: Property, plant and equipment and intangibles

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles $'000	Total $'000
Cost or deemed cost				
Balance at 1 July 2010	850	171	1,155	2,176
Additions				
- by purchase	350	11	-	361
- internally developed - in progress	-	-	991	991
- internally developed	-	-	176	176
Disposals	-	-	-	-
Balance at 30 June 2011	1,200	182	2,322	3,704
Balance at 1 July 2011	1,200	182	2,322	3,704
Other additions				
- by purchase	-	-	-	-
- internally developed - in progress	-	-	16	16
- internally developed	-	-	90	90
Disposals	-	-	-	-
Revaluation increment/(decrement)	(159)	(69)	-	(228)
Balance at 30 June 2012	1,041	113	2,428	3,582

	Leasehold improvements $'000	Plant and equipment $'000	Intangibles $'000	Total $'000
Depreciation/amortisation				
Balance at 1 July 2010	(60)	(60)	(356)	(476)
Depreciation for the year	(137)	(31)	(197)	(365)
Disposals	-	-	-	-
Balance at 30 June 2011	(197)	(91)	(553)	(841)
Balance at 1 July 2011	(197)	(91)	(553)	(841)
Revaluation increment/(decrement)	197	91	-	288
Depreciation for the year	(201)	(37)	(120)	(358)
Disposals	-	-	-	-
Balance at 30 June 2012	(201)	(37)	(673)	(911)
Carrying amounts				
At 1 July 2010	790	111	799	1,700
At 30 June 2011	1,003	91	1,769	2,863
At 1 July 2011	1,003	91	1,769	2,863
At 30 June 2012	840	76	1,755	2,671

All valuations are independent and are conducted in accordance with the revaluation policy stated at Note 1(t).

A revaluation was undertaken by an independent valuer, Preston Rowe Paterson NSW Pty Limited on 1 July 2011.

Previous financial year revaluation related to leasehold improvements which have been written off due to the short term of the lease for the previous premises. This financial year is Nil. (2011:Nil).

No indications of impairment were found for leasehold improvements or plant and equipment in 2012 (2011: Nil)

Note 13: Unearned liability

			2012 $'000	2011 $'000
(a)	**Unearned liability**			
	Unearned premium liability	13(b)	**57,710**	52,132
	Unearned commission liability	13(c)	**3,792**	3,954
	Total unearned liability		**61,502**	56,086
(b)	**Unearned premium liability as at 1 July**		**52,132**	48,297
	Deferral of premiums on contracts written in the period		**57,710**	52,132
	Earning of premiums written in the previous periods		**(52,132)**	(48,297)
	Unearned premium liability as at 30 June		**57,710**	52,132
(c)	**Unearned commission liability as at 1 July**		**3,954**	4,114
	Deferral of commissions on contracts written in the period		**3,792**	**3,954**
	Earning of commissions written in the previous periods		**(3,954)**	(4,114)
	Unearned commission liability as at 30 June		**3,792**	3,954

Note 14(a): Payables

	2012 $'000	2011 $'000
Retrocessionaire creditors	**39,688**	41,795
Trade creditors	**12**	43
Accruals	**603**	686
Total payables	**40,303**	42,524

Retrocessionaire creditors:

In accordance with ARPC's reinsurance treaty the retrocession premium is paid quarterly in advance. Settlement is made net 30 days of the start of each quarter.

Trade creditors:

Settlement is usually made net 30 days.

All of ARPC's liabilities are guaranteed by the Commonwealth by virtue of section 35 of the TI Act.

Note 14(b): Dividends

	2012 $'000	2011 $'000
Payable to the Australian Government	**389,202**	-
Dividends payable are represented by:		
Current	**175,000**	-
Non-current	**214,202**	-
Total dividends	**389,202**	-

Dividends payable:

In accordance with section 38 (3) (b) of the *Terrorism Insurance Act (2003)* a Ministerial Direction was received dated 21 June 2012 directing ARPC to pay a dividend to the Government.

Note 15: Other interest bearing liabilities

	2012 $'000	2011 $'000
Lease incentive	**326**	248
Other interest bearing liabilities are represented by:		
Current	**25**	45
Non-current	**301**	203
Total other interest bearing liabilities	**326**	248

Lease Incentive:

Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and a reduction of the lease liability.

Note 16: Provisions

	2012 $'000	2011 $'000
(a) **Employee provisions**		
Salaries and wages	66	45
Leave	402	370
Other	10	4
Total employee provisions	**478**	419
Current / non-current		
Current	244	201
Non-current	234	218
Total employee provisions	**478**	419

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Note 17: Cash flow reconciliation

	2012 $'000	2011 $'000
Reconciliation of cash and cash equivalents as per balance sheet to cash flow statement		
Report cash and cash equivalents as per:		
Cash Flow Statement	**8,299**	14,660
Balance Sheet	**8,299**	**14,660**
Difference	-	-
Reconciliation of operating result to net cash from operating activities:		
Operating result	**83,488**	**61,386**
Depreciation/amortisation expense	**358**	366
Asset write-off	**-**	8
(Increase)/decrease in receivables	**(4,257)**	(959)
(Increase)/decrease in other non-financial assets	**293**	(288)
(Increase)/decrease in deferred insurance assets	**2,246**	585
Increase/(decrease) in unearned liability	**5,416**	3,675
Increase/(decrease) in payables	**(2,221)**	(750)
Increase/(decrease) in other interest bearing liabilities	**78**	(44)
Increase/(decrease) in provisions	**59**	(136)
Net cash from / (used by) operating activities	**85,460**	63,843

Note 18: Average staffing levels

	2012	2011
The average staffing levels for ARPC during the year were:	20	20

Note 19: Executive remuneration

(a) **Executive remuneration expense for the reporting period**

	2012	2011
	$	$
Short-term employee benefits:		
Salary	**1,130,465**	768,052
Annual leave accrued	**102,411**	125,867
Performance bonuses	**10,000**	3,000
Total short-term employee benefits	**1,242,876**	896,919
Post-employment benefits		
Superannuation	**123,804**	71,870
Total post-employment benefits	**123,804**	71,870
Other long-term benefits		
Long-service leave	**30,394**	21,447
Total other long-term benefits	**30,394**	21,447
Total	**1,397,074**	990,236

Notes:

1. Note 19(a) was prepared on an accrual basis (so the performance bonus expenses disclosed above differ from the cash 'Bonus paid' in Note 19(b)).

2. Note 19(a) excludes acting arrangements and part-year service where remuneration expensed for a senior executive was less than $150,000.

3. Note 19(a) 2011 was a year of transition for ARPC with a significant change in executive staff. Therefore staff that had been recruited during the year, but in that year did not receive more than $150,000, are excluded from inclusion in Note 19. The executive remuneration in 2010 was $1.258 million.

Note 19: Executive remuneration (continued)

(b) **Average annual remuneration packages and bonus paid for substantive Senior Executives as at the end of the reporting period.**

2012

Fixed elements and bonus paid [1]	Senior Executives No.	Salary $	Allowances $	Total $	Bonus paid [2] $
Total remuneration (including part-time arrangements):					
$150,000 to $179,999	1	174,847	-	174,847	-
$180,000 to $209,999	2	200,556	-	200,556	10,000
$210,000 to $239,999	1	223,269	-	223,269	-
$330,000 to $359,999	1	331,237	-	331,237	-
Total	5				

2011

Fixed elements and bonus paid [1]	Senior Executives No.	Salary $	Allowances $	Total $	Bonus paid [2] $
Total remuneration (including part-time arrangements):					
$150,000 to $179,999	1	170,000	-	170,000	-
$180,000 to $209,999	2	190,130	-	190,130	3,000
$210,000 to $239,999	1	217,000	-	217,000	-
$300,000 to $329,299	1	323,054	-	323,054	-
Total	5				

Notes:

1. This table reports substantive senior executives who were employed by the entity at the end of the reporting period. Fixed elements were based on the employment agreement of each individual. Each row represents an average annualised figure (based on headcount) for the individuals in that remuneration package band (i.e. the 'Total' column).

2. This represents average actual bonuses paid during the reporting period in that remuneration package band. The 'Bonus paid' was excluded from the 'Total' calculation, (for the purpose of determining remuneration package bands). The 'Bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.

Note 19: Executive remuneration (continued)

Variable elements

With the exception of bonuses, variable elements were not included in the 'Fixed Elements and Bonus Paid' table above.

(a) Bonuses:

- Bonuses were based on the performance rating of each individual. The maximum bonus that an individual can receive was 10 per cent of his/her base salary.

(b) On average senior executives were entitled to the following leave entitlements:

- Annual Leave (AL): entitled to 20 days (2011: 20 days) each full year worked (pro-rata for part-time SES);
- Personal Leave (PL): entitled to 15 days (2011: 15 days) or part-time equivalent; and
- Long Service Leave (LSL): in accordance with Long Service Leave (Commonwealth Employees) Act 1976.

(c) Senior executives were members of one of the following superannuation funds:

- AGEST: Employer contributions were set at 15.4 per cent from the 1st of January 2012 (2011: 9.0 per cent).

- Other: there were some senior executives who had their own superannuation arrangements (e.g. self-managed superannuation funds). Their employer contributions were set at 15.4 per cent from the 1st of January 2012 (2011: 9.0 per cent).

(d) Variable allowances:

- nil

(e) Various salary sacrifice arrangements were available to senior executives including super, motor vehicle and expense

(c) Other highly paid staff

During the reporting period, there were nil employees whose salary plus performance bonus were $150,000 or more.

Note 20: Members' remuneration

	2012	2011
	$	$
Total remuneration received or due and receivable by Members of ARPC	44,619	56,917

The number of Members of ARPC included in these figures are shown below in the relevant remuneration bands:

$ Nil - $14,999	**6**	6
$ 15,000 - $29,999	**1**	1
$ 30,000 - $44,999		
Total number of Members of ARPC	**7**	7

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Note 21: Auditor's remuneration

	2012	2011
	$	$
The cost of financial statement audit services provided to ARPC was:	**122,000**	118,000

The financial statement audit services are provided to ARPC by the Auditor-General. No other services were provided by the Auditor-General during the reporting period.

Note 22: Related party disclosures

Members

The names of persons who were Members of ARPC during the financial year were:

Mr J Gersh, Ms P Azarias, Ms J Bowe, Mr T Karp, Ms M Micalizzi, Mr J Murphy and Mr G Vogt.

Changes in membership during the year:

Mr J Gersh was reappointed on 1 July 2012 for a further six months until 31 December 2012.

Mr T Karp was first appointed on 29 August 2008 until 28 February 2012. He was reappointed on 1 July 2012 until 30 June 2015.

Ms J Bowe and Ms M Micalizzi were reappointed for a further three year term from 1 July 2012 until 30 June 2015.

Mr G Vogt's term expired on 28 February 2012.

Information on remuneration of Members is disclosed in Note 20.

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 $352,978 (2011: $249,769). These transactions were made on terms equivalent to those that prevail on arms length transactions.

Controlling entity

ARPC was established by section 9 of the TI Act.

The ultimate controlling entity is the Australian Government. 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. ARPC's liabilities are guaranteed by the Commonwealth by virtue of section 35 of the TI Act.

Note 23: Financial instruments

		Notes	2012	2011
			$'000	$'000
(a)	**Categories of financial instruments**			
	Financial assets			
	Cash and cash equivalents	7	**8,299**	14,660
	Loans and receivables financial assets			
	Receivables (gross)	8	**43,155**	38,950
	Fair value through profit and loss (held to maturity)			
	Fixed term deposits	9	**521,000**	652,500
	Government securities	9	**236,363**	13,148
	Carrying amount of financial assets		**808,817**	719,258
	Financial liabilities			
	At amortised cost			
	Payables	14(a)	**40,303**	42,524
	Dividends	14(b)	**389,202**	-
	Other interest bearing liabilities	15	**326**	248
	Carrying amount of financial liabilities		**429,831**	42,772
(b)	**Net income and expense from financial assets / liabilities**			
	Investment income	5(c)	**40,886**	36,180
	Net gain/(loss) from financial assets		**40,886**	36,180

Note 23: Financial instruments (continued)

(c) **Fair value of financial instruments**	Notes	**Carrying amount 2012 $'000**	**Fair value 2012 $'000**	Carrying amount 2011 $'000	Fair value 2011 $'000
Financial assets					
Cash and cash equivalents	7	8,299	8,299	14,660	14,660
Receivables (gross)	8	43,155	43,155	38,950	38,950
Fixed term deposits *	9	521,000	521,000	652,500	652,500
Government securities *	9	236,363	236,363	13,148	13,148
Total financial assets		808,817	808,817	719,258	719,258
Financial liabilities					
Payables	14(a)	40,303	40,303	42,524	42,524
Dividend payable	14(b)	389,202	389,202	-	-
Other interest bearing liabilities	15	326	326	248	248
Total financial liabilities		429,831	429,831	42,772	42,772

* These financial instruments are classified as level 2 in the fair value hierarchy.

Level 1 - fair values measured using quoted prices (unadjusted) in active markets for identical instruments

Level 2 - fair values measured using directly or indirectly observable inputs, other than those included in level 1.

Level 3 - fair values measured using inputs that are not based on observable market data.

ACRONYMS AND ABBREVIATIONS

AASB	Australian Accounting Standards Board
AGA	Australian Government Actuary
AGD	Attorney General’s Department
AIR	Asia Insurance Review
ANAO	Australian National Audit Office
ANZIIF	Australian and New Zealand Institute of Insurance and Finance
AMB	A.M. BEST
APRA	Australia Prudential Regulation Authority
ARPC	Australian Reinsurance Pool Corporation
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
BCM	Business continuity management
BCP	Business continuity plan
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CBD	Central business district
CEO	Chief Executive Officer
CIPMA	Critical Infrastructure Protection Modelling and Analysis
CPA	Certified Practising Accountant
DTI	Declared terrorist incident
FMO	Finance Minister’s Orders
FOI Act	*Freedom of Information Act 1982*
GA	Geoscience Australia
GST	Goods and services tax
GWP	Gross written premium

HR	Human resources
HSMA	Health and Safety Management Arrangements
HSR	Health and Safety Representative
ICA	Insurance Council of Australia
IPAA	Institute of Public Administration Australia
IPS	Information Publication Scheme
NABERS	National Australian built environment rating system
OECD	Organisation for Economic Co-operation and Development
OH&S Act	*Occupational Health and Safety Act 1991*
OH&S	Occupational health and safety
PMS	Performance Management System
RBA	Reserve Bank of Australia
RISe	Reinsurance information system, ARPC's client information management system
RMS	Risk management strategy
SBS	Special Broadcasting Service
S&P	Standard and Poor's
SES	Senior executive staff
TI Act	*Terrorism Insurance Act 2003*
UBSAG35	Union Bank of Switzerland Australian Government 3-5 year bond index
UBSW	Union Bank of Switzerland Warburg
WHS Act	*Work Health and Safety Act 2011*
WWF	World Wildlife Fund (Australia)

COMPLIANCE INDEX

Commonwealth Authorities (Annual Reporting) Orders 2011 Requirements	Commonwealth Authorities (Annual Reporting) Orders 2011 Reference	Page
Amendments to authority's enabling legislation or other relevant legislation	Schedule 1, Clause 16 (d)	Not applicable
Approval by directors	Schedule 1, Clause 6	ix
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Disclosure requirements for Government Business Enterprises	Schedule 1, Clause 20 (a) (b) (c)	Not applicable
Enabling legislation–objectives and functions	Schedule 1, Clause 10	xii – xiii, 1 - 16
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Other legislation: *Environmental Protection and Biodiversity Conservation Act 1999*	Section 516A, Clause (3) (6)	46

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