



ARPC MARKET UPDATE

5 NOVEMBER 2014

Background

ARPC's Annual Report 2013–2014 was tabled in Parliament on 28 October 2014. The report details our achievements, performance and financial position for the reporting period as well as ARPC's outlook for the year ahead.

Annual report overview

ARPC plays a crucial role in protecting insurers and businesses with Australian assets from losses caused by terrorism catastrophe. Over the past year we have been able to enhance both our organisational and financial capability to respond quickly to a declared terrorist incident (DTI).

ARPC is considered a leading pool amongst similar pools that exist in all major economies around the world. This is due to our deep experience with blast and plume modelling; as well as our strategic use of retrocession where we purchase reinsurance cover from Australian and global market.

Over the last year we have continued to build and improve our capability in loss estimation modelling, our processes and systems capability to respond quickly to a DTI. We launched our strategic plan for the next three years that will position ARPC as a trusted advisor on terrorism risk insurance; and we continued to develop strong relationship with our stakeholders.

ARPC is well positioned to respond to an event. In addition to our total funding capacity of \$13.6 billion, we have in place a skilled and experienced team. We also have in place a response plan for a DTI, and loss modelling capability.

We look forward to the triennial review and further implementing the ARPC strategic plan. We will continue to work with all our stakeholders to ensure we provide value for money.

Financial summary

ARPC completed the financial year in a stronger financial position than the previous year with net assets increasing from \$432.6 million to \$573.1 million.

Our operating result was \$71.4 million and was \$7.0 million (10.9 per cent) better than plan and \$1.1 million (1.4 per cent) less than last year. The operating result variance to both plan and last year is primarily due to investment (and other) income of \$26.5 million which is \$3.2 million (14.9 per cent) better than plan, and \$6.8 million (21.6 per cent) less than last year.

We received premium revenue of \$129.7m, which was \$3.7m (2.9 per cent) better than plan, and \$2.4m (1.9 per cent) higher than last year.

Our expenses were \$9.0 million and were \$0.3 million (2.4 per cent) better than plan, and \$3.6 million (28.5 per cent) lower than last year.

Our net retrocession cost (after retrocession commission revenue) was \$74.1million and was \$0.1 million (0.2 per cent) slightly worse than plan, and \$0.2 million (0.3 million) higher than last year.

A lower balance of investment assets and lower interest rates is impacting investment income. Investment assets (including cash) are \$596.8 million and are \$74.4 million (11.1 per cent) less than last year due to payments to government that totalled \$150 million

Total equity is \$573.0 million (2013: \$432.6 million) after allowing for the dividend payments of \$150 million to the government and the reversal of the dividend payable for future years of \$143.9 million. The reserve for claims is now \$535.1 million (2013: \$408.3 million). The claim reserve is supported by additional funding for claims from the \$2.9 billion retrocession reinsurance program, and the \$10 billion Commonwealth guarantee.

During 2014, ARPC increased the claims handling reserve of \$24.3 million to \$37.9 million, as per ARPC policy. The claims handling reserve ensures that sufficient funds are set aside to allow ARPC to finalise any claims and reinsurance recoveries following cessation of the scheme or a significant DTI.

ARPC's financial highlights for 2010 through to 2014 are represented in table below.

Financial highlights

	2014	2013	2012	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000
Net premium revenue	47,980	45,900	37,523	24,534	25,293
Acquisition costs	(1,089)	(1,167)	(1,124)	(609)	(603)
Retrocession commission income	7,606	7,471	7,705	8,004	7,551
Investment income	26,531	35,912	40,886	36,180	28,351
Other income	(1,660)	(4,193)	5,484	(88)	(596)
Other operating expenses	(7,962)	(6,680)	(6,986)	(6,635)	(6,800)
Finance Charge (Dividend)	(4)	(4,793)	-	-	-
Operating result	71,402	72,450	83,488	61,386	53,196
Gross written premium	129,642	132,093	124,709	112,555	104,885
Outwards retrocession premium	(81,728)	(81,381)	(81,607)	(84,186)	(80,098)
Net expense ratio	13.89%	20.04%	14.56%	20.49%	26.89%
Gross expense ratio	5.14%	7.23%	4.59%	4.62%	6.45%
Cash and cash equivalents	1,314	4,953	8,299	14,660	41,668
Investments	595,500	666,230	757,363	665,648	576,334
Reserve for claims	535,054	408,252	338,400	665,846	604,460

The full annual report is available at <http://arpc.gov.au/news-and-publications/annual-reports/>

For more information on ARPC please visit www.arpc.gov.au.

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